FINANCIAL TIMES

World Business Newspaper http://www.FT.com TUESDAY JULY 15 1997

German telecoms

Will the open framework be respected?

Page 2

Morgan Stanley

Dean Witter's brokers delighted

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Biometrics

Faster, cheaper fingerprint systems

Technology, Page 12

Japan

Surprising advances for market forces

Today's survey, Pages 23-28

Bonn moves to speed sale of Lufthansa stake

Seven international banks have been invited to put forward plans for the privatisation of the German government's final 35.68 per cent stake in national airline Lufthansa. The talks with banks suggest Bonn is hastening efforts to complete the sale of the stake – valued at about DM4.5bn ($2.57bn) – by the end of the year. Page 17

Merrill in Israel telecoms deal: Investment bank Merrill Lynch is paying the Israeli government $350m for 12.5 per cent of state telecoms company Bezeq. The move came a day after confirmation that a planned August public offering in the telecoms group was being postponed. Page 17 ; Observer, Page 15; Lex, Page 16; Cellular tender, Page 16

DuPont buys ICI bulk chemicals: The UK's Imperial Chemical Industries is selling its titanium dioxide and polyester businesses for $3bn to DuPont, the US's largest chemicals group. Page 17; Observer, Page 15; Lex, Page 16

Formula One pledge: Richard Branson, head of the UK's Virgin group, promised to set up a rival motor racing contest if Formula One carries out its threat to pull out of the British grand prix when the UK government bans tobacco advertising and sponsorship. Page 10

UK orders Gulf syndrome study: Britain's Labour government announced fresh research into the mysterious ailments suffered by many Gulf War veterans and promised speedier assessments of their condition. It will spend £2.5m ($4.24m) on studies of the possible effects of vaccines and tablets given to protect troops against insects, chemical and biological warfare.

Peru anger grows: Peru faces anti-government protests over what are seen as further constitutional violations by President Alberto Fujimori. The protests were sparked by a TV report of routine telephone tapping by the authorities, and news that the main shareholder in the channel that revealed the tapping was to be stripped of his Peruvian nationality. Page 7

Jailed for corruption: The head of an Egyptian public company was jailed for 10 years for corruption. Abdel Wahab El-Habbak, who was denounced by his estranged wife, was convicted of embezzling over $36.2m of public funds.

Volkswagen of Germany plans to double car production in Slovakia to more than 60,000 next year from 30,000 in 1996. It aims to be making some 300 cars a day in 1998.

Trouble for Mir chief: Vasily Tsibliyev, Russian commander of the damaged Mir space station, is exhausted and has a minor heart problem. Russian mission control said this should not affect his planned sortie to the holed Spektr module, but more health tests would be conducted today.

Accident mars start of Israeli games: The opening of the 15th Maccabiah, the Jewish Olympics, near Tel Aviv was marred when a bridge to the stadium collapsed, killing one person and wounding at least 40 others, five of them seriously, police said.

Hague court jails Serb war criminal:

The UN war crimes tribunal at The Hague sentenced Bosnian Serb Dusan Tadic, above, to 20 years in prison for his part in a vicious "ethnic cleansing" campaign against Moslem civilians. "Dusko" Tadic, 41, was given a total of 97 years on 11 counts of crimes against humanity and war crimes, to run concurrently. Page 2

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STOCK MARKET INDICES

New York lunchtime		
Dow Jones Ind Av	7936.68	(+14.86)
NASDAQ Composite	1521.43	(+18.81)
Europe and Far East		
CAC40	2941.59	(+12.50)
DAX	4124.19	(+83.22)
FTSE 100	4857.4	(+57.9)
Nikkei	20228.72	(+353.23)

US LUNCHTIME RATES

Federal Funds	5½%
3-mth Treas Bills: Yld	5.13%
Long Bond	101 5/32
Yield	6.54%

OTHER RATES

UK: 3-mo Interbank	6 31/32%	(same)
UK: 10 yr Gilt	101 5/32	(101¾)
France: 10 yr OAT	closed	
Germany: 10 yr Bund	103.56	(103.48)
Japan: 10 yr JGB	104.9642	(same)

NORTH SEA OIL (Argus)

Brent Dated	$17.84	(18.01)

GOLD

New York Comex		
July	$320.1	(321.6)
London:		
close	$320.75	(320.25)

DOLLAR

New York lunchtime		
£	1.688	
DM	1.785	
FFr	6.0605	
SFr	1.476	
Y	113.835	
London:		
£	1.6883	(1.6946)
DM	1.7909	(1.7696)
FFr	6.046	(5.975)
SFr	1.4744	(1.4598)
Y	113.8	(113.655)
Tokyo close:	Y 113.85	

STERLING

DM	3.0236	(2.9367)

9 770174 736128 29

Boeing and Brussels closer over US merger

Commission proposes deal on McDonnell Douglas spare parts

By Emma Tucker in Brussels and Michael Skapinker in London

Boeing and the European Commission were edging towards a deal yesterday which could help break the deadlock over the aircraft maker's proposed merger with McDonnell Douglas.

Brussels is understood to be willing to accept a deal under which Boeing would license a third party to make spare parts for McDonnell Douglas's civilian aircraft.

Such a move would answer the Commission's concern that an enlarged Boeing would have an overwhelming position in the civil aircraft market, making it difficult for Airbus Industrie, the European consortium, to compete.

The Commission is concerned that airlines operating McDonnell aircraft would be overly dependent on Boeing for their servicing and supply of spare parts. Brussels has pointed out that following the merger Boeing would control 84 per cent of the existing global in-service fleet.

The idea of licensing a third party could help break the deadlock between Brussels and Boeing which arose after a European Union advisory committee recommended blocking the merger, contradicting the US Federal Trade Commission, which approved it without conditions.

The takeover of McDonnell Douglas, first announced in December, would create the world's biggest aerospace and defence company. Although there have been few complaints from airlines about the merger, Airbus has said the enlarged Boeing plans to force it out of business.

Legal experts believe an agreement between Boeing and the Commission could take the form of a licence to a third party of McDonnell Douglas's intellectual property rights, combined with a transfer of the relevant know-how naeded to manufacture the spare parts.

Granting a licence to a third party in order to establish greater competition is a remedy commonly deployed by companies seeking EU approval for mergers.

For example, in its merger with Scott Paper, Kimberley-Clark agreed to license the Kleenex brand for use in the UK and Republic of Ireland on toilet paper and kitchen roll.

Boeing refused to comment on the Commission's proposal, saying only that it was continuing to work with Brussels to find "a mutually acceptable solution".

However, industry observers said licensing a third party to manufacture McDonnell Douglas spares could create other difficulties. "Customer service can't be separated from spares. Who's going to provide the training and technical support? Boeing has hundreds of field representatives around the world," one observer said.

With only days to go before the official deadline for EU regulatory approval of the controversial deal, a Brussels source said mnch work still needed to be done on the two other sticking points that threaten to wreck the merger.

Boeing and the Commission have yet to resolve differences over the 20-year exclusive supply deals that Boeing has concluded with three US airlines. Boeing has offered to shorten or modify the contracts, bnt this is unlikely to change the decision by the airlines to buy their aircraft from the US manufacturer rather than from Airbus.

Brussels had earlier given Boeing until last night to submit final proposals on how to meet EU concerns. This was to allow for a further meeting of the Commission's advisory committee and the translation of texts.

However, as the Commission is not due to make a decision until July 23, negotiations between the two sides are likely to continue until next week.

The coffin of Miguel Angel Blanco is carried by his family, followed by politicians, military officers and the population of Ermua, Spain, during a massive funeral yesterday. He was kidnapped and shot by the Basque guerrilla group, ETA. Report, page 2 Reuter

Chirac warning on hindering industry

By Samer Iskandar in Paris

Mr Jacques Chirac, the French president, yesterday warned France's Socialist government not to hamstring industry with "obsolete and absurd regulations".

He called for a resumption of reforms initiated by Mr Alain Juppé, the former rightwing prime minister, but frozen by the Socialist government in the wake of its recent electoral victory.

Speaking on television as part of the Bastille Day celebrations, the Gaullist president attacked the government's plans to make it more difficult for companies to lay off employees as part of corporate restructuring.

"This is a discussion from another time... One cannot imprison the activities of those who create [wealth and jobs] in obsolete and absurd regulations," he said in his first TV appearance since the beginning of his "cohabitation" with the Socialists. .

The president also cautioned against the socialist governmant'a attempts to slow down the privatisation process.

"The state today has nothing to do with the management of the competitive sector; it is not its role. Every time it has done so, things went badly wrong or were very costly. Our large companies can no longer live without alliances. They must be able to forge European alliances," be said, referring to Thomson-CSF, the French defence and electronics company whose full privatisation was called off by the government last Friday.

In response, Mr François Hollande, of the Socialist party, said the president had no choice bnt to let the government govern. He said Mr Chirac had "yet to understand that on June 1, the French rejected the choices, the decisions, and the measures" of the outgoing government.

The president reaffirmed France'a commitment to joining the single European currency, due to be introduced in January 1999, but he said the budget deficit for 1997 would be "of the order of 3.5 per cent [of gross domestic product]", well outside the target of 3 per cent of GDP set by the Maastricht treaty as a condition of entry into economic and monetary union.

The government of Mr Lionel Jospin, prime minister, is struggling witb the need to meet the Emu criteria, while keeping to its electoral pledges on jobs and welfare.

However, the president stopped sbort of advocating a liberal economic model *similar* to that of the UK or US. Mr Chirac said Mr Tony Blair, Britain's Labour prime minister, was a "very liberal" free marketeer.

The president also renewed bis pledge to "fight with extreme firmness" the far right National Front, which won almost 15 per cent of the vote in the election.

Preparing for Emn, Page 3

BT braced for investor grilling at AGM

By Martin Brice, Virginia Marsh and Alan Cane in London and Richard Waters in New York

British Telecommunications' board was yesterday rehearsing its response for wbat is expected to be a bruising annual general meeting in Edinburgb tomorrow.

Sir Iain Vallance, BT chairman, is known for his emollient way with unhappy shareholders, but he *is expected to* have to deal with a flood of questions from investors concerned abont the future of the company's planned merger with MCI of the US.

The merger between the two companies, set for completion this antumn, is in jeopardy after MCI unexpectedly revealed last week tbat its

Continued on Page 16

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Kenya is told to reform or western aid will be stopped

By Michela Wrong in Nairobi and Michael Holman in London

International pressure on Mr Daniel Arap Moi, Kenya's president, intensified yesterday when western nations urged him to introduce political reforms or face suspension of aid and loans.

Renewed political violence in the capital Nairobi prompted a tough warning from Germany, one of the country's leading donors. "The Kenyan government can only count on our development aid if it complies with democratic, pluralistic and constitutional rules in political debate," said the German ministry for economic co-operation and development.

The pnblic message was reinforced yesterday by private warnings from other bilateral donors as well as the World Bank and the International Monetary Fund.

An IMF official is due in Nairobi today and is expected to make clear that renewal of the country's loan agreement is dependent not only on stronger action against corruption but also an end to the political unrest that is undermining the economy.

Nairobi yesterday echoed once again to the sounds of gunfire and exploding tear gas canisters as police fougbt street battles with thousands of students calling for constitutional reform.

The rioting, which followed the worst week of political unrest in the country in seven years, exploded as students from the Kenya Polytechnic in central Nairobi set up barricades of burning tyres in the central Haile Selassie Avenne.

Chanting "no reforms, no elections", the slogan of the broad-based movement calling for constitutional cbange before forthcoming polls, the students stoned security forces wbo responded with plastic bullets and tear gas.

The Central Bank of Kenya and central post office were closed and traffic piled up as the three-and-a-half hour battle raged in the heart of the city. Riot police fanned out to protect the nearby US embassy before storming the polytechnic to snuff the protest out.

At least nine people were killed wben police broke up peaceful rallies last week calling for the repeal of colonial-era laws giving the president an advantage in elections expected later this year.

Last week's scenes of riot police cinbbing unarmed civilians senseless in what is traditionally regarded as East Africa's most stable democracy triggered an outcry abroad and have seot tremors through Kenya's financial markets.

The fresh flare-up suggests that a recent offer by the president to discuss the constitution with the governing council of the ruling Kanu party and a conference of party delegates had done little to assuage a growing sense of public anger.

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Bosnian Serb gets 20 years in prison

By Guy Dinmore in Belgrade

The United Nations war crimes tribunal in The Hague yesterday handed down a 20-year jail sentence to Mr Dusan Tadic, a Bosnian Serb, for crimes committed against Moslems.

He was found guilty of being involved in beatings and torture that led to at least two deaths during the 1992-95 Bosnian war.

The sentence reflected the international community's new get-tough policy towards wanted war criminals as a means of shoring up the fragile Dayton peace accord before Nato's scheduled withdrawal from Bosnia next June.

The presiding judge, Mrs Gabrielle Kirk McDonald of the US, sentenced Mr Tadic, a former police reservist, on 11 counts and delivered a harsh message to indicted Bosnian Serb leaders still at large.

"You embraced the extreme principles of Serb nationalism," she said. "Those who sought territorial and political gains initiated a campaign to realise these goals by force of arms with limitless cruelty and viciousness. You responded to this campaign... and you must bear responsibility for your criminal conduct."

Lawyers for Mr Tadic, who pleaded not guilty on the basis of mistaken identity, are to appeal against the sentence, only the second to be passed by the tribunal since it was formed in 1993. An ethnic Croat who took part in the Bosnian Serb army's execution of Moslems in 1995 was jailed for 10 years.

The tribunal holds 10 indicted suspects at its detention centre in The Hague and has publicly announced warrants against 67 other suspects, including the former Bosnian Serb president, Mr Radovan Karadzic, and his military commander, Gen Ratko Mladic. Both have moved freely within Serb-controlled areas as well as in neighbouring Serbia.

In a radical change of strategy that coincided with a tougher policy adopted by the US towards Bosnia, the tribunal said in June it would issue sealed warrants to maximise the chances of seizing suspects unaware they had been indicted.

After years of criticism of Nato for failing to back the tribunal's efforts to bring war criminals to justice, British special forces in northwest Bosnia last Thursday shot dead Simo Drljaca, a former police chief, after he resisted capture, and arrested Mr Milan Kovacevic, a hospital director. Both had been secretly indicted for crimes against Moslems in the notorious Omarska detention centre where Mr Tadic had also been active.

Drljaca was given a hero's funeral with military honours in the northwest town of Banja Luka on Sunday.

Dusan Tadic: sentenced for murder and crimes against humanity Reuter

Hours later a bomb exploded outside the offices of international monitors in Serb-controlled Zvornik, destroying a truck and shattering windows. There were no casualties.

Mr Chris Bennet, spokesman for the International Crisis Group that monitors implementation of the Bosnian peace accord, hailed the US-backed operation against Mr Drljaca as an "incredible masterstroke". "Drljaca was a massive fish, 95 per cent as big as Karadzic," he said in Sarajevo.

Drljaca, he said, was not only a wanted war criminal but a war profiteer allied to the hardline camp supporting Mr Karadzic in his power struggle with his successor, Mrs Biljana Plavsic, president of the Serb republic that makes up half of the theoretically unified Bosnian state.

Mr Bennet said Serb reaction to Nato's new strategy of seizing war criminals was likely to be muted as the Bosnian Serb leadership needed the continued presence of US troops to ward off the threat of any offensive by the stronger Moslem-Croat army.

Mr Momcilo Krajisnik, the Bosnian Serb member of the collective Bosnian presidency and a hardline opponent of Mrs Plavsic, attended Sunday's funeral and denounced the trial of Mr Tadic as politically motivated.

Watchdog insists he has real bite

World's most liberal market is the aim of Germany's new telecoms regulator

Germany's telecommunications law has the potential to create the most liberal market in the world. The task now is to fulfil that ambition, without being distracted by politicians or resistance from Deutsche Telekom, the former monopoly which dominates the telecoms business.

That is the agenda set by Mr Klaus-Dieter Scheurle, appointed last week as head of a new post and telecommunications regulatory authority which starts work next January 1. "We have a real chance to get a very competitive environment – and very strong growth," he said in an interview.

There is nevertheless considerable scepticism among newcomers in the sector. The government is widely regarded as having moved too slowly in setting up the new authority, which has less than six months to prepare for full liberalisation. Mr Scheurle himself – a senior civil servant in the post and telecommunications ministry – is seen as lacking business experience, as too political (he worked for the parliamentary party of Chancellor Helmut Kohl's Christian Democratic/Christian Social Union between 1989 and 1993) and too close to the dominant companies he is supposed to control.

His office is in the same block in Bonn as Deutsche Post, the mail service. Until his appointment as regulatory chief he was on the supervisory board of T-Mobil, the mobile telephone subsidiary of Deutsche Telekom, which is still majority-owned by the state.

Klaus-Dieter Scheurle: no favours for Deutsche Telekom Marc Darchinger

But Mr Scheurle, a quietly-spoken native of Stuttgart, says such accusations are "not new" – and wrong. "The new telecommunications act, the rates regulation ordinance and the interconnection ordinance are regarded as the most liberal framework in the world," he claims. "The point now is to see the aims of the telecommunications act are fulfilled. We won't have any political discussions on this point – or special favours for Deutsche Telekom."

As for his own background, "you cannot say that it is better to have an academic or someone from the private sector. I believe it really depends on the quality of the person – the strength of the individual... Perhaps you have your own vision of a civil servant, but remember German civil servants drew up the telecommunications act which, as I said, is very liberal."

The 1996 act is already being tested. Mr Wolfgang Bötsch, federal post minister, who has regulatory responsibilities until the end of the year, is embroiled in a dispute with Deutsche Telekom. The issue is "interconnection" arrangements offered by the telecoms giant to new competitors which wish to link their networks with Deutsche Telekom's. Mr Bötsch has threatened fines if acceptable offers are not made.

Mr Scheurle, who will now be more closely involved in such decisions, says interconnection rules "are things that Deutsche Telekom is not going to like", but a company which no longer has monopoly status "has to change its attitude". His relationship with Deutsche Telekom, he maintains, "hasn't been easy for much of the time because of Deutsche Telekom's concerns about the telecommunications act when it was being considered by parliament".

As if to emphasise his distance from Deutsche Telekom, he happily suggests the group should consider selling its loss-making cable television interests, which serve almost 17m households. He has no power to force such a move and doubts on cost grounds whether, as some claim, the network could be used by competitors as a rival telecommunications business. "But if the cable business makes losses it would be a very good business decision to sell it or to do something else with it."

In his approach to his new job, Mr Scheurle shrugs off differences in business culture between Germany – where the boundary with politics is often blurred and a consensus approach often preferred – and the UK or US, where independent telecoms regulators are well established. "I don't think there are big differences because we have free markets in all these countries, as well as similar regulatory frameworks."

The future development of Germany's telecoms industry depends on two factors, Mr Scheurle says. First, the strength of competitors. "You can see very strong, well-financed competitors in the US. And in Germany we also have very big companies as competitors – including the electricity companies." Second is the strength of the regulator. "And I have the very strong intention to be a very strong regulator."

Ralph Atkins

King in TV plea after Eta murder

By Tom Burns in Madrid

King Juan Carlos planned an appeal for calm and resolute opposition to violence in a television broadcast last night as the weekend murder by Eta, the Basque separatist group, of a kidnapped town councillor continued to shake the Spanish nation.

Hundreds of thousands of people, gripped by an unprecedented sense of outrage, gathered in central Madrid ahead of the King's address to the nation, for a protest march against the terrorists.

In an outpouring of revulsion that has taken political leaders by surprise, the entire country observed 10 minutes' silence at midday to commemorate Mr Miguel Angel Blanco, 29, a politician representing the centre-right Popular party on the town council of Ermua, deep in the Basque country.

Traffic stopped and office-workers came out on to the streets as the Prince of Asturias, the heir to the throne, and Mr José Maria Aznar, the prime minister, headed mourners at the funeral service for Mr Blanco in Ermua. Feelings were running particularly high in the Basque country where police have had to protect members of Herri Batasuna, Eta's political wing, against angry mobs.

Eta had given a 48-hour ultimatum saying it would kill Mr Blanco unless the government ordered jailed members of its organisation regrouped in prisons in or naar the Basque country. But the two bullets one of its members shot into the back of Mr Blanco's head as the deadline expired have backfired on the terrorists and isolated their supporters.

Yesterday, the Basque Nationalist party, the mainstream political group in the Basqua country, said it would no longer co-operate with Herri Batasuna in the Basque parliament and in the town councils where both hold sway. The two parties share the broad aim of an independent Basque country, but for the first time the moderates have come out forcefully against those who back Eta.

Amid signs that Eta's entrenched edifice is starting to crumble, a veteran Herri Batasuna leader condemned Mr Blanco's murder, saying he was considering withdrawal from politics. One Eta gunmen, serving a 30-year jail ssntence, announced a hunger strike in protest at the organisation's continuing violence.

Debate on right to sell life's secrets

Euro-MPs consider gene patent law, write **Daniel Green** and **Sander Thoenes**

The European Parliament votes tomorrow on the complicated and divisive issua of gene patenting.

Those in favour of the draft directive claim that at stake is the viability of two of Europe's most important industries: pharmaceuticals and agriculture.

Both make use of genetic research. Every living thing has genes (people have about 100,000). Each gene is involved in the production of a protein which plays a role in how a living thing develops. One gena might he responsible for the lung disease cystic fibrosis and another for the rotting of tomatoes. By changing or removing the right gene, cystic fibrosis might be cured or tomato harvests increased.

The industries that rely on work with genes are among Europe's fastest growing. Most companies are in the UK, but other countries are trying to catch up. Germany, for one, has launched a DM150m ($84.7m) subsidy programme for commercialising biotechnology, partly because it sees employment opportunities there to offset joh losses in older industries.

Patents are central to biotechnology in that it takes several bundred million dollars to develop s new drug. The developer has the drug's 20-year patent life to recoup the investment and make a profit.

Opponents say the directive would allow the "patenting of life" because genetic material is partly responsible for making living things the way they are. How can a royalty be charged for what is part of living plants and creatures, they argue.

They are also concerned that the draft directive could lead to the exploitation of developing countries, whose citizens' genes and crops contribute to the collective intellectual property.

For example, they fear coffee farmers in Ethiopia could end up paying royalties to large western corporations for growing the same coffee they have grown for decades, just because the corporation patented a gene sequence that makes the coffee brand resistant to pests.

Some opponents of the draft directive, such as Professor Jacquelina McGlade of the Department of Biological Sciences at Warwick University in the UK, say this would extend the scope of what is patentable in Europe to include "all organisms".

"You could patent the oak tree hy screening its genes for potential medical applications," sha says.

However, lawyers such as Mr Richard Hacon, a London patent barrister who has advised industry and environmental groups, say this is not so.

"Not a lot would change if tha directive were passed," he says. "The European Patent Office (EPO) has already heen granting patents on the things people are worried about". For example, the EPO granted a patent on Harvard University'a "oncomouse": a mouse genetically susceptihle to cancer which can be used for the testing of new cancer drugs.

The draft directive, proposed hy the European Commission, would go hefore the Council of Ministers if the parliament approves it. It would harmonise legislation on patenting bio-technological inventions throughout the 15 member states.

The difficulties in grasping the technical, scientific and legal arguments have raised the profile of more succinct moral ohjections to gene patenting.

"This is a highly technical directive and the deputies don't realise wbat's at stake," says Mr Antonios Trakatellis, a Christian Democrat MEP and biochemist from Greece. "If you give a patent on a gene yon give a monopoly. Companies will be interested in 'conquering' as many genes as they can. This is really madness."

"It's like patenting a finger, a heart or a kidney," said Mrs Eleanor Gluckman, a French doctor who has protested against s US patent on umbilical cord hlood, used to treat leukaemia. "You cannot patent a living thing like that, especially when it's used to treat patients."

Plant and animal hreeders worry they will have to pay a licence fee on generations of cows and corn cobs.

Mr Peter Ruckenbauer, of the Institute for Agricultural Sciences in Vienna, said more jobs would be lost among small-time breeders because of the patent directive than would be created in the biotech industry.

"For farmers, it is very important to have an open market, so they can use the best genetic animals available," says Mr Wim Wismans, director at the Dutch Animal Breeding Regulations Board.

However, Mr Robin Nott, hiotechnology patent specialist at solicitors Cameron McKenna, argues farmers would only buy genetically engineered seeds or animals if they brought a commercial return.

Many of these arguments are a re-run of two years ago when the European parliament threw out the last biotachnology patent draft directive.

Since then, some of the proposed provisions have been tightened: there are limits on how gene patents may be applied, and how they affect plant varieties.

This time, the industrial lobby groups have taken the battls to the environmentalists. And they have some patient groups on their side urging financial rewards for effective treatments.

Editorial comment, Page 15

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Kohl backs speedy Polish entry to EU

By Ralph Atkins in Bonn

Cbancellor Belmut Kohl yesterday descrihed Germany's relations with Poland as the best in this century and gave strong backing for "speedy" Polish membership of tha European Union.

Speaking after the first consultative conference between ministers of the two governments, Mr Kohl stressed the importance he attached personally to extending the EU's borders beyond the river Oder. "Poland is a part of Europe and without Poland, the European Union is only a torso," he declared.

The meeting in Bonn was an attempt to put relations with the former Warsaw Pact country on a formal footing, with annual ministerial conferences similar to the twice-yearly Franco-German summits. Mr Kohl said Poland itself had to ensure that it met tha conditions for EU membership, but Germany would offer support in that process.

The ranks of ministers, however, were depleted by the absence of the Polish interior and defence ministers, who cancelled at the last minnte because of the catastrophic floods which have hit sonthern Poland and the Czech Republic with the loss of at least 74 lives. The German federal government, which had already offered Poland more than DM400,000 ($225,000) in aid towards flood relief, promised yesterday to give further technical help. The Red Cross in Germany has also appealed for donations.

Poland is one of five countries jndged by the European Commission to be ready to open accession negotiations with the European Union. Mr Jacqnes Santer, president of the Commission, will present a blneprint this weak on enlargement to the European Parliament. Poland was also among three former Warsaw Pact states invited earlier this month to join Nato from April 1999.

Mr Kohl, who seven years ago oversaw an agreement ending dispntes over the Polish-German border, said there was now a "new quality" to relations between the two countries. The summit saw agreement to deepen co-operation in cultural fields, youth exchanges and in medicine.

EUROPEAN NEWS DIGEST

Kremlin hails 'reform vote'

Kremlin officials yesterday hailed the election of Mr Ivan Sklyarov as governor of Nizhny Novgorod as a vote for the continuation of economic reform and a rejection of political extremism. Mr Boris Nemtsov, who vacated the governor's seat in March to become first deputy prime minister, said Mr Sklyarov's victory showed Nizhny Novgorod's 4m residents wanted to move forward to the 21st century rather than back to "bankrupt communist slogans and ideals".

The opposition parties had fought a determined campaign to defeat the pro-reform candidate in what was seen as an important test of Russia's political mood. More than 60 Communist MPs campaigned for their candidate, Mr Gennady Khodyrev, who also received the backing of Mr Vladimir Zhirinovsky's ultra-nationalist Liberal Democratic party.

In the second round of voting on Sunday, Mr Sklyarov won 52 per cent of the vote against 42 per cent for Mr Khodyrev.

But in a less important ballot on Sunday for the post of mayor of Samara, Mr Georgy Limansky decisively defeated the Kremlin-approved candidate. Mr Limansky is the regional head of Mr Alexander Lebed's nationalist party. *John Thornhill, Moscow*

■ DUTCH SUPERVISION

Watchdogs seek tougher act

The three Dutch financial watchdogs confirmed yesterday that they are to tighten their collaboration and to discuss a full merger, in response to parliamentary worries about the reliability of the present system of supervision.

The Dutch central bank, the securities trading watchdog, STE, and the insurers' review board, VK, are to compile a register for directors of financial institutions, to ensure standards of professional integrity. This confidential list would make it more difficult for directors dismissed under dubious circumstances to find a new employer.

Partly on the back of two recent scandals, involving a fraudulent brokar and a bankrupt insurer, Mr Gerrit Zalm, Dutch finance minister, last year asked the watchdogs to study closer collaboration.

Parliamentarians also complained that the current system was outdated and that it lacked co-ordination, at a time when the distinctions between banking, insurance and investment were tending to become increasingly hlurred. *Barbara Smit, Amsterdam*

■ PORTUGUESE ECONOMY

June inflation falls to 1.8%

Portugal's year-on-year inflation fell to 1.8 per cent in June, down from 2.1 per cent in May and half the level of the 3.6 per cent registered in June last year, the National Statistics Institute said yesterday. Annual average inflation dropped to 2.9 per cent from 3.0 per cent in May and 3.3 per cent a year earlier.

"These figures indicate that annual average inflation will fall to about 2.5 per cent by the end of the year and virtually ensure that Portugal will comply with the inflation criteria for participating in the single European currency," said a senior bank economist.

Portugal's central bank cut its three main money market intervention rates hy 0.3 percentage points on Friday, bringing the repurchase rate, the main reference for short-term interest, to 5.7 per cent. *Peter Wise, Lisbon*

■ US ADVICE

Slovakia urged to reform

Mrs Madeleine Alhright, the US secretary of state, called on Slovakia yesterday to "rejoin the path" of democratic reform and earn a place in Nato alongside the Czech Republic.

In a speech in her native Prague, Mrs Alhright made a special appeal to the eastern part of the former Czechoslovakia, which has become a diplomatic outcast because of perceived shortcomings in making democratic reforms.

Saying that the Clinton administration had promised to back all nations "hetween the Baltic and Black seas" which met Nato's criteria for membership, Mrs Albright said she hoped it would "rejoin the path of true democratic reform" and make itself a "strong candidate for the second round of Nato enlargement".

When Czechoslovakia peacefully split into separate states in 1993, Slovakia was seen as being among the frontrunners for early Nato membership.

But when Nato issued its first membership invitations to post-Communist states in Madrid last week, only Poland, Hungary and the Czech Republic won the nod. Slovakia was not even mentioned as a top prospect to joint Nato in future. *Reuter, Prague*

■ GERMAN ECONOMY

Exports maintain recovery

Germany's economy has continued to recover during the second quarter thanks to strong exports, but domestic activity remains subdued, the economics ministry said yesterday in its latest monthly report.

To boost growth and employment, a decisive investment pickup is needed, but confidence has been dampened because of the uncertain fate of government tax reforms, it said.

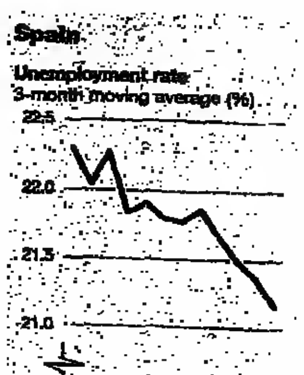
The opposition Social Democrats (SPD) threw a government package of DM30bn ($17bn) in tax cuts out of the upper house of parliament this month.

The tax reform now faces protracted parliamentary mediation.

The report said that latest data still supported the view that "the drawn-out deterioration is coming to an end... at least in western Germany". The situation was more hleak in the east, where spending on jobs schemes has been cut back. *Reuters, Bonn*

ECONOMIC WATCH

Unemployment edges down



Spanish unemployment fell by 0.2 percentage points to 21.17 per cent from March to May this year, the National Statistics Institute (INE) reported yesterday. The data are based on an INE survey, completed on a quarterly rolling basis. The institute added that the number of people without a job fell hy 1.04 per cent from the previous Fabruary-to-April period to 3.397m. The unemployment rate stands at 28.35 per cent for women and at 16.63 per cent for men. The total number of employed rose by 0.14 per cent to 12.651m. Last week, official figures showed that registered unemployment fell in June by almost 32,000 to 13 per cent of the labour force, against 13.2 per cent at the end of May. This was the lowest percentage of jobless people registered at employment offices since June 1991. *Reuter, Madrid*

NEWS: EUROPE

Bigger is better in bourses' brave euro world

Preparing for Emu

Emu should give continental markets an opportunity to compete with the biggest in the world, writes Andrew Fisher in Frankfurt, but it is far from certain the chance will be seized

One of the principal hopes of those who await the coming of the single currency with enthusiasm rather than trepidation is that continental Europe's financial markets – led by Frankfurt and Paris – will collectively become strong enough to compete with the biggest in the world.

For that to happen, many smaller bourses will have to disappear and larger ones will have to co-operate – on products, technology and strategy. The initial manoeuvring has begun, but the outcome is far from certain. National pride plays a strong role in the preservation of markets.

Ultimately, though, it will be the big institutional investors which will decide where they want to trade. They will go where the market is most liquid, the product range is most diverse and the back-office facilities are cheapest and most efficient.

"In the Europe of the euro, there's no place and no need in the long term for 32 stock exchanges and 23 futures and options exchanges," Mr Rolf Breuer, chairman of Deutsche Bank, said at the recent Global 24 conference in Frankfurt, at which speakers from Europe, Japan and the US were linked by video.

He described monetary union as "one of the biggest chances, if not tha chance of a lifetime, for Europe as a financial centre". It was an opportunity to gain competitiveness against the markets of the US, Japan and the Asia-Pacific region by concentrating "the totally fragmented" markets in Europe.

This fragmentation of stock markets, settlement rules and legal systems represented "an endless row of mistakes, of falling behind, of being latecomers in an integrated global world". While Emu would not be an eutomatic remedy for social and economic problems, it would be "an accelerator of immense dimensions".

It would belp promote integration across Europe, "so that capital markets get an additional momentum to develop in a direction in which they ought to develop anyway".

Institutional investors would thus be more attracted to Europe, said Mr Breuer, who is also supervisory board chairman of Deutsche Börse, which runs the Frankfurt securities and derivatives exchanges.

Companies should find that the cost of new debt issuance fell, while equity markets would become more transparent. The Emn zone would contain the world's third largest equity market, which Mr Breuer grandly forecast would be "the growth market of the coming years".

Not everyone shares this rosy view of the future. Although tbe tone of the conference was mostly positive, central bankers – notably Mr Eddie George, governor of the Bank of England – injected a cautious note by pointing out that to achieve a stable, successful euro, governments needed to make their economies far more flexible and dynamic.

Foreign investors will be watching closely to see how well they succeed. Mr Yoshiaki Kaneko, senior managing director of the Tokyo Stock Exchange, said: "The key issue is whether the new currency, the euro, is strong and stable in future and also whether each country can satisfy the [Meastricht treaty] criteria, even after the start of monetary union."

For Japanese investors, securities issuers and financial intermediaries, "that's the most important thing". Since most institutional investors in Japan concentrated on dollar and sterling investments, they were likely to wait and see how stable the euro became before deciding whether to shift more of their portfolios to Europe.

Mr Richard Grasso, chairman of the New York Stock Exchange, thought the main driving force in world capital markets in coming years would be continued privatisation and a further switch by companies from debt to equity financing. This would open up markets to a wider range of investors, as happened in the US in the past few decades.

This trend would be more important than technological advances in promoting the development of international capital markets, in and outside Europe. "When you create a common currency platform, you stimulate equity participation, you begin to develop a depth of investor participation in markets similar to the growth we experienced in the US."

In Europe, he expected Emu to act as an "accelerant", helping to promote the development of privatisation and other equity-oriented trends across the continent. "There will be e positive reshaping of the world's financial markets."

Mr Daniel Hodson, chief executive of the London International Futures and Options Exchange (Liffe), argued that London would remain dominant whatever happened. "The decision-makers are here. Investment banks, regardless of where they come from – Germany, France and so on – are based in London."

Few would disagree with his assessment of London's atrength. But Mr Jörg Franke, a Deutsche Börse executive, said the euro would increase competition between exchanges, and claimed the German derivatives exchange, Deutsche Terminbörse, would have an advantage through its electronic trading system.

Liffe and the DTB have recently indulged in e war of words over whether their competing strategies for the singla currency era amount to war or competition. Clearly, technology will make it easier for institutions to decide where they want to trade. Nor does Mr Hodson think it will make much difference to London if the UK stays outside Emu. "London is virtually in Frankfurt and Frankfurt is virtually in London because of electronics."

Emu: who's going to make it

J P Morgan Calculator July 14 1997

	Yesterday	1 week ago	4 weeks ago
Germany	100%	100%	100%
[illegible]	[illegible]	[illegible]	[illegible]
Belgium	100%	100%	100%
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]

The Emu calculator reveals, real time, the probability of individual countries joining Germany in a monetary union in 1999 implied by financial market prices. Market probabilities are derived from the interest rate swaps market, in which investors swap floating-rate interest payments for fixed-rate ones. The implied probability of Italy participating in Emu in 1999 can be calculated looking at where the spread between post-1999 lira and D-Mark swap rate lies, between the zero level implied by Emu and the level we would expect if Italy is not in Emu. Italy's non-Emu spread is estimated by currency strategists at J.P.Morgan using the pre-1992 correlation of the lira-D-Mark swap spread with similar spreads outside Europe.

Rome has benefited from the election of a Socialist-led government in France, say economists

Odds shorten on Italy joining front-runners in Emu stakes

Italy's chances of joining the inaugural round of European economic and monetary union in January 1999 have reached 75 per cent for the first time since the J P Morgan calculator was devised.

Economists say that Italy, which was given only a 50 per cent probability of joining Emu at the start of the year, has benefited strongly from the election of a Socialist-led government in France at the start of last month.

Mr Lionel Jospin, the French prime minister, promised during the election campaign to press for the inclusion of both Italy and Spain in the first round of Emu. Italy has also been helped by indications that both Germany and France are unlikely to meet the strict Maastricht criteria on budgetary deficits.

Italy's improving chances, which are calculated on the swap market's expectations of future interest rates, mean that Europe's bond and currency markets expect a broadly based Emu to take place in 1999. "The markets are basically saying that the euro will be a soft currency," said Mr Avinash Persaud, head of currency research at J P Morgan.

But analysts say that Italy is also being rewarded for its improving fiscal situation, with the latest estimates showing Italy's budget deficit falling to below 3.5 per cent of gross domestic product this year. Some are even expecting it to fall to as low as 3.1 per cent, which would almost certainly represent an improvement on France's expected performance in 1997.

Under the Maastricht convergence targets, countries must aim for a sustainable budget deficit of 3 per cent of gross domestic product or below. President Jacques Chirac indicated yesterday that the 1997 French deficit was running at about 3.5 per cent of GDP.

Mr Mark Cliffe, chief international economist at HSBC Markets, says that Italy is also benefiting from the weakness of the D-Mark against the US dollar. This has encouraged investors to switch into Italian assets, including Italian government bonds.

"Europe's high-yielding currencies always profit from weakness in the D-Mark," said Mr Cliffe. "This is usually the trigger for strong buying of Italian government assets." The spread of Italian bonds over the German benchmark bund fell below 0.9 percentage points yesterday for the first time.

However, Mr Mario Monti, an Italian EU commissioner, said it was not a foregone conclusion that Italy would be a founder member of the euro. "Since the end of 1996 Italy has made big progress, but beware of being blinded by euphoria," he said.

Economists warn that the trend towards a broader Emu is likely to have political repercussions in Germany, where public opinion seems unconvinced of the merits of the single currency. Anti-Emu sentiment is expected to harden in Germany if Italy looks certain to be included in the first wave. "The more likely that Italy joins Emu, the more likely it is that Emu will be postponed," said Mr Persaud.

Edward Luce

Legal gunfight at the Novolipetsk corral

Chrystia Freeland witnesses a shareholder struggle with shades of the American West

Russia's most high-profile battle over shareholder rights erupted at a contentious meeting last weekend, pushing the Novolipetsk Metallurgical Kombinat, the country's largest steel producer, into legal limbo.

Outside investors, who are locked in a long-running struggle with managers for representation on the board of directors, on Saturday mustered enough votes to quash the company's charter, pushing the giant factory into a legal twilight zone and paralysing its management.

The outside investors portray the struggle at the steel-mill as e landmark effort to defend shareholders' rights in Russia's still savage market economy. By contrast, the management, which is allied with Transworld, a powerful metals trading company, attacks the investors as speculators eager to make a quick profit at Russia's expense, with little concern for the long-term future of the plant or its workers.

Their struggle is the most prominent of an avalanche of similar disputes in Russia. Five years after Moscow began its mass privatisation drive, once widely dispersed shareholdings are being consolidated into larger stakes. And, as in Lipetsk, in thousands of workplaces across the country outside investors and entrenched Soviet-era managers are battling for control of Russia's industrial patrimony.

The clash has transformed hundreds of Soviet-grey industrial cities into the backdrops for acrimonious conflicts resembling the legendary cowboy showdowns of the American West, with money and guns in wild abundance.

The battle for control in Lipetsk has created a bidding war for the few shares still owned by workers and small-scale local investors, turning a few canny steel-workers into millionaires in the past few months.

At the Novolipetsk plant meeting, bodyguards with short hair and thick biceps appeared to outnumber the shareholders. A team of sharp-suited Moscow litigators representing the outside shareholders were made to check their guns and recording equipment at the door. A metal detector made sure they kept their promise.

But, at the meeting itself, the outside shareholders, a loosely aligned group which includes Cambridge Capital Management and the Sputnik Fund, two western investment funds, and Oneximbank, one of Russia's most powerful commercial banks, carried the day.

Together, the group own just over 50 per cent of the plant's share capital and just over 45 per cent of voting shares. That gave them enough power to quash the management's proposed new company charter, a measure which means the company and its board of directors now have no legal status.

"The board of directors and the company charter now have no legal authority," said Mr Genrikh Padva, a Chadbourne and Parke lawyer representing the outside investors. "The company can continue to live, but any actions its management takes, including the conclusion of any contracts, could be disputed in court, and the court would probably rule the action invalid."

He added: "An even greater danger for them is that the state prosecutors could appeal to the jodiciary and demand the liquidation of the enterprise."

The irate managers of the steel mill, a vast complex which produced 7m tonnes of steel last year, warned that the move could have devastating consequences for the plant.

Mr Vladimir Skorokhodov, chairman of the board, charged that "they [the outside investors] are pursuing a policy aimed at not ratifying the charter. This means the company will become legally non-existent, leading ultimately to its liquidation and sale and the loss of jobs by its 50,000 workers".

But the stoic worker-shareholders of the Novolipetsk plant seemed to have little fear of such apocalyptic developments.

"We don't have a charter, but so what?" asked Mr Yevgeny Mashkov, the 49-year-old chief of the carpentry shop.

"A charter is just a sheet of paper, but the factory is here. You can't just make it vanish, can yon?"

Malaysia is the latest victim of Asia's currency turmoil

Ringgit allowed to fall in Malaysia's tactical retreat

By James Kynge in Kuala Lumpur

Malaysia has beaten back two big speculative attacks on its currency since mid-May with central bank interventions costing up to an estimated US$2bn. But yesterday, like Thailand and the Philippines before it, it succumbed to overwhelming pressure and allowed the ringgit – or Malaysian dollar – to depreciate significantly.

The relaxation was not, however, a surrender. Bank Negara, the central bank, has merely retreated to more defensible ground, dealers and economists said.

Dealers were surprised in early trade yesterday when it became clear that Bank Negara had abandoned the M$2.5250 level it has been doggedly defending since the mid-May attack on the Thai baht. But when the ringgit fell to M$2.55, a 16-month low, the bank intervened. In late trade, the currency had firmed slightly to around M$2.53.

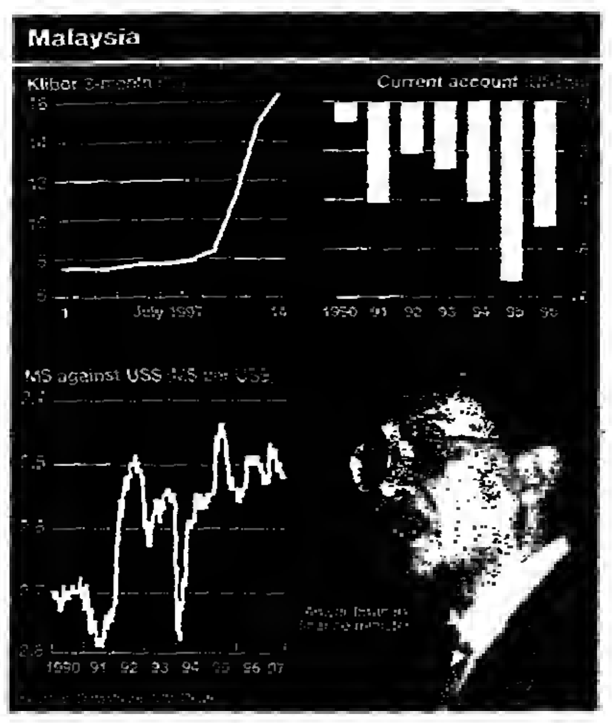
"People are not looking for a devaluation of the ringgit. We are seeing a realignment of its trading range to reflect the other currency depreciations in the region," said Mr Kobus van der Wath, head of regional treasury economics at the Standard Chartered Bank in Singapore.

Observers said there were two main reasons for the central bank's change of heart. The first was that a continued defence of M$2.5250 would have taken a further large chunk out of foreign reserves, which totalled M$70bn in June. The second was that Malaysia's exporters, many of whom have seen lacklustre sales this year, have been losing out to counterparts in Thailand, the Philippines and Indonesia since those countries allowed their currencies to slide.

Treasury economists said that, judging by the fundamentals of the Malaysian economy, yesterday's depreciation in the ringgit might be sufficient. But, they acknowledged, fundamentals have little bearing on the decisions of speculators. "They have hammered the baht and the [Philippine] peso and now they are hungry for the ringgit," said one dealer.

The other worry is that the longer the speculative threat continues, the greater is the risk that the fundamentals may turn sour. Short-term interest rates have risen dramatically, battering an already depressed stock market and raising the possibility that direct investment will slow as banks raise their base lending rates, economists said. The key three-month Klibor (Kuala Lumpur Inter-Bank Offered Rate) rose to 16.4 per cent yesterday compared with a closing price of 13.4 per cent on Friday.

Several large companies have begun to experience problems in raising equity finance for the infrastructure projects which increasingly drive the economy. Yesterday the stock market's leading index was down 20 per cent from its high in February this year; some recent share issues have flopped and several key company listings have been postponed indefinitely.



"Quite a lot of investment projects will not go ahead and there will be a downsizing of the most ambitious ones," said Mr Neil Saker, regional economist at Soc-Gen Crosby in Singapore.

The threat of an economic slowdown is pressing Bank Negara to lower interest rates, but many economists feel that if it were to do so, the ringgit could slump. "When interest rates are brought down, the ringgit could drop by 10 to 15 per cent," said Ms Seema Desai, regional economist at Schroders in Singapore.

Several observers believe that Bank Negara could impose the same type of administrative controls as those tried by Thailand when the baht first came under attack. "They could freeze the ringgit swap market," said one dealer. "But if they did so, they would surrender some of their free market credentials."

In a sense, the bank has already nailed its colours to the mast. Mr Ahmad Mohamad Don, the governor, left little doubt last week that the bank is not about to throw in the towel in its struggle with speculators.

Few big winners in falling currencies

By Simon Kuper

The devaluations of emerging markets currencies have cost their countries dear. But the banks and hedge funds who brought down the currencies have made relatively small profits. That is because the three victims – the Czech koruna in May, and the Thai baht and Philippine peso this month – are relatively minor currencies.

Daily turnover in the baht is just $14bn. A bank may have profited from the baht's 15 per cent fall only to see its gains erased by an incorrect bet on the D-Mark.

There is none of the hand-rubbing at banks that went on in 1992, after they forced sterling and the lira out of the European exchange-rate mechanism.

Another reason for the lack of euphoria today is many speculators lost money when the Thai central bank defeated assailants in May.

The losses then were due to the peculiar way that currencies are attacked. Typically, a speculator bets against a currency by "shorting" it. In the case of Thailand, he borrows bahts in order to sell them. Usually, he sells them in the "forward" market, where currencies are traded for delivery at a set date in the future. So the speculator may agree to sell Bt100m for dollars one month's hence. He is betting that, in a month's time, the baht will have fallen. If he is right he sells his baht for dollars at the price agreed in advance, buys the baht he has to repay at the new, lower price, and makes a profit.

Central banks have three main defences against this strategy. First, they can stop local banks from lending money to foreign speculators. Thailand did this by creating separate onshore and offshore baht markets.

Second, they can raise interest rates. That makes it more expensive to borrow a currency. This happened in May, when Thailand raised rates so sharply many investors chose to repay their borrowed baht immediately. The problem with increasing rates is the domestic economy suffers.

Third, central banks can buy their own currency in the market but this is expensive. Thailand spent about $20bn trying to prop up the baht and subsequently having to bail out companies and institutions that suffered from its fall.

ASIA-PACIFIC NEWS DIGEST

Asean warned by Hun Sen

Mr Hun Sen, Cambodia's "second" prime minister, yesterday accused the Association of South East Asian Nations of interfering in his country's internal affairs, further threatening the country's prospective membership of the regional group. Mr Hun Sen, whose forces took Phnom Penh last week in fierce fighting, said he was considering withdrawing his country's application.

His warning to Asean comes a week after it decided to postpone Cambodia's expected entry indefinitely. It also came as King Norodom Sihanouk, who is in Beijing recovering after medical treatment, said he was powerless to resolve the crisis.

Mr Hun Sen also warned the international community against harbouring the "first" prime minister, Prince Norodom Ranariddh, who was effectively ousted in the fighting. Mr Hun Sen yesterday demanded the arrest and extradition of his rival co-premier.

"If anybody dares to protect [him], I can say that that foreign country is the defender of a traitor," he told reporters. The prince fled Cambodia on July 4 and has been campaigning for international sanctions against Mr Hun Sen. *AFP, Kompong Thom, Cambodia*

INDIAN POLITICS

Party quits coalition

One of the main component regional members of India's United Front coalition withdrew from the government yesterday, citing frustration at internal political bickering.

The Tamil Nadu-based Dravida Munnetra Kazhagam said its 15 MPs would leave the 180-seat government, its leader criticising the "personal whims" and "private programmes" of other coalition partners.

The party's departure will not immediately threaten the UF's survival, however, with Mr Muthuvel Karunanidhi, DMK president, saying his party would continue to support the government "from outside".

But the DMK decision follows the formal split earlier this month of the UF's biggest component party, the Janata Dal and a subsequent and unresolved internal row over whether the breakaway Rashtriya Janata Dal formed by Mr Laloo Prasad Yadav, the legally embroiled Bihari leader, should be allowed to remain part of the UF. *Mark Nicholson, South Asia Correspondent*

PRESIDENTIAL ELECTION

Narayanan's prospects strong

An electoral college of national and local legislators began voting for India's tenth president yesterday, in a virtual one-horse race expected to choose Mr K R Narayanan, 76, now vice-president.

Counting of votes and the announcement of the result are set scheduled for Thursday. The new president, to assume office for a five-year term this month, will take over three weeks before the 50th anniversary of India's independence on August 15.

If elected, Mr Narayanan would become India's first low-caste president. A former diplomat, he faces competition from Mr T N Seshan, former chief election commissioner. *Reuter, New Delhi*

TAIWAN CHALLENGE

Lee plans to travel again

Taiwan said yesterday it would request a transit visa from the US for President Lee Teng-hui, a move likely to provoke an angry outburst from China. Mr Roy Wu, the Foreign Ministry spokesman, said an application for the visa would be lodged for Mr Lee's planned trip to a September conference in Panama.

The stopover would be the first time Mr Lee has touched down on US soil since his 1995 visit to Cornell University, his alma mater, drew a furious response from Beijing.

"We believe that, based on friendly relations and open communication channels between the two sides (Taipei and Washington), there shouldn't be any problems," Mr Wu said. *Laura Tyson, Taipei*

Thailand intervenes to support baht

By Ted Bardacke in Bangkok

Thailand's central bank intervened yesterday in the currency market, saying the baht had fallen too far, after the currency sank to record levels.

Spurred by the regional currency turmoil, the baht tumbled to a new record low of Bt30.80 in the domestic market before the central bank's announcement and intervention. By the close of trading, it had firmed to Bt29.90, stronger than Friday's close of Bt30.75.

The action marks the second time central bank officials have announced an "appropriate" value for the Thai currency. Last week, they said it should be Bt27.50-Bt28.50, a level they did not attempt to defend.

"The baht has fallen 15 per cent since the new foreign exchange regime was introduced; the central bank thinks it is already at a level that is too low," Mr Chaiyawat Wibulswasdi, central bank deputy governor, said.

Analysts said that trying to set a level for the currency at this moment would have the effect of introducing more risk. "Either you have a floating currency or you don't," said Mr Paul Alapat, financial economist with Lehman Brothers in Hong Kong. "The way it's going, it will never settle."

Mr Rerngchai Marakanond, Bank of Thailand governor, said the central bank had intervened, "but in a very small way". The bank planned to keep the two-tier foreign exchange market and capital controls in effect. He predicted volatility in the foreign exchange market should subside by mid-week.

● Thai financial officials will take up to two weeks to study rehabilitation proposals submitted by 16 suspended finance companies before deciding whether to allow talks to continue with potential partners or forcibly merge them with healthy competitors.

Central bank officials said most companies had submitted some sort of proposal, but the fact that only four had publicly announced such plans should be seen as an indication of their strength.

Among issues to be studied are whether a firm proposal by new investors has been made, whether finance companies will be allowed to sell only their securities operations, and the flexibility of foreign ownership limits, at present standing at 25 per cent.

Manila may seek new IMF backing

By Justin Marozzi in Manila

The Philippines may seek financial support of up to $1.5bn from the International Monetary Fund and Japan's Eximbank to shore up dwindling international reserves, after last week's *de facto* devaluation of the peso.

The central bank, whose reserves are low compared with its south-east Asian neighbours, spent about $1bn defending the peso. Reserves fell to $10bn, representing less than three months' import cover.

"Every time we have a chance to increase reserves, we'll grab it," Mr Gabriel Singson, governor of the central bank, said. "I understand the managing director of the IMF is going to take it up at the board meeting this Friday."

The country's weakening reserves position was "the most important reason" for letting the peso move within a wider band. The IMF praised the move and pledged financial support.

Some $600m is still available under the Philippines' IMF three-year extended fund facility, with an additional "augmentation" of $450m, Mr Singson added. The country had been due to graduate from IMF tutelage at the end of last month but has applied for an extension following the failure to pass the final component of the tax reform programme.

A further $450m was "readily available" from Japan Eximbank, Mr Singson said, although no decision had been made yet to draw on funds from either organisation.

Analysts said the foreign debt position, standing at $42bn, of which 17 per cent was short-term, had significantly improved. Given the economic fundamentals, one said, the Philippines would probably receive a credit upgrade to full investment rating within 12 months.

"They've done a good rescheduling of their short-term debt to longer and medium-term debt," said Mr Roman Azanza, head of SocGen Crosby Securities in Manila.

According to the Department of Finance, for every 1 peso depreciation against the dollar, the government's debt burden would rise by 6bn pesos ($200m).

As foreign exchange dealers wait for the peso to settle and find its new trading band, attention is still firmly focused on the key overnight borrowing rate, left unchanged at 32 per cent yesterday.

Liabilities surge over 106% to new high in first six months

Corporate bankruptcies reach an 11-year record in Japan

By Gwen Robinson in Tokyo

Japanese corporate insolvencies rose in the first half of this year to their highest level in 11 years. The bankruptcies increased 10.4 per cent to 7,857, with liabilities surging more than 106 per cent to a record Y6,330bn ($55.6bn), according to Teikoku Databank, a private research agency.

The previous record for any six-month period was Y3,960bn, in the first half of 1995.

The increase in liabilities reflects the extent of financial problems still haunting companies with outstanding debts from the "bubble economy" era of the late 1980s.

The surge in liabilities was due primarily to the simultaneous failures of three private financial institutions affiliated with Nippon Credit Bank, which is now undergoing restructuring. The three NCB affiliates, Crown Leasing, Nippon Assurance Finance Service and Nippon Total Finance, filed for bankruptcy in April with debts exceeding Y2,180bn.

Without these three failures, the continuing high number of corporate bankruptcies illustrates how Japan's economic downturn in the past four years has compounded the bad-debt problems among companies across many sectors.

Nearly 65 per cent of all bankruptcies in the six-month period were blamed on poor economic conditions, according to Teikoku Databank. Failures in the building sector surged; those among wholesalers showed marked increases.

Among specific reasons, "poor sales" were cited in 4,119 cases, up from 3,708 last year; "lax management" was blamed for 1,337 failures, up from 1,318.

Bad debts caused 300 corporate failures, up from 173 the year before, the agency said.

In June alone, corporate bankruptcies rose nearly 20 per cent year-on-year to 1,349, though total liabilities for the month fell nearly 40 per cent to Y403.88bn.

The drop in liabilities led some analysts to predict the scale of bankruptcies might be declining, as more large companies resolve their bad-debt problems and complete restructuring programmes.

The unexpected collapse on July 4 of Tokai Kogyo, a medium-sized general contractor, with Y510bn in debt has reawakened fears that further big bankruptcies are yet to surface.

On the Tokyo stock market, construction-related issues and those of debt-laden companies have fallen sharply in response to the news. Tokai Kogyo ranked as the eighth biggest collapse since the end of the second world war. Its failure will boost total liabilities from bankruptcies in the second half of this year.

INTERNATIONAL ECONOMIC INDICATORS: PRICES AND COMPETITIVENESS

Yearly figures are shown in index form with the common base year of 1985. The real exchange rate is an index throughout; other quarterly and monthly figures show the percentage change over the corresponding period in the previous year and are positive unless otherwise stated.

UNITED STATES

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1986	101.9	98.5	102.1	99.9	85.0
1987	105.8	100.7	103.9	98.4	76.1
1988	109.9	103.2	106.8	100.2	71.0
1989	115.2	108.5	109.9	101.9	74.9
1990	121.5	113.9	113.5	104.9	73.2
1991	126.6	116.3	117.3	108.4	74.1
1992	130.4	117.7	120.1	108.3	74.0
1993	134.3	119.2	123.1	108.2	76.4
1994	137.8	119.9	126.5	108.0	74.2
1995	141.7	122.2	129.7	108.3	68.7
1996	145.8	125.4	134.0	108.1	73.3
3rd qtr.1996	2.9	2.9	3.3	–0.1	73.5
4th qtr.1996	3.2	3.0	3.5	–0.5	74.3
1st qtr.1997	2.9	2.1	3.6	–0.1	77.9
2nd qtr.1997		0.3			78.0
July 1996	2.9	2.6	3.2	–0.8	73.5
August	2.9	3.0	3.5	0.1	73.1
September	3.0	3.0	3.4	0.4	73.6
October	3.0	3.1	3.3	–0.4	74.2
November	3.3	3.0	3.6	–0.8	73.6
December	3.3	2.8	3.7	–0.3	75.0
January 1997	3.0	2.5	3.0	–0.2	76.5
February	3.0	2.2	3.5	0.0	78.3
March	2.8	1.6	4.3	–0.2	79.1
April	2.5	0.8	2.8		79.3
May	2.2	0.3	3.0		77.6
June		–0.1			76.8

JAPAN

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1986	100.9	95.3	101.4	102.7	118.5
1987	101.3	92.5	103.1	100.0	122.9
1988	102.3	92.3	107.8	96.0	131.0
1989	105.1	94.2	114.0	96.6	123.5
1990	108.3	95.7	120.1	99.7	108.2
1991	111.9	96.8	124.2	103.6	113.2
1992	114.0	95.6	125.6	112.8	114.5
1993	115.4	94.3	125.8	118.8	131.9
1994	116.2	92.6	128.4	118.5	137.4
1995	115.9	92.0	132.5	115.8	138.3
1996	115.8	91.3	135.8	113.3	118.6
3rd qtr.1996	0.0	–0.8	4.8	–4.0	117.7
4th qtr.1996	0.1	–0.6	2.0	–3.4	114.0
1st qtr.1997	0.0	–0.3	5.2	–5.0	110.0
2nd qtr.1997					114.6
July 1996	0.4	–0.9	3.6	–5.4	118.1
August	0.0	–0.7	7.6	–2.6	118.5
September	–0.4	–0.8	3.0	–4.0	116.8
October	0.0	–0.8	2.9	–4.4	114.6
November	0.1	–0.6	2.5	–3.0	114.0
December	0.2	–0.4	1.4	–2.8	113.3
January 1997	0.0	–0.4	6.6	–6.8	111.3
February	0.1	–0.3	3.1	–2.1	109.1
March	0.0	–0.2	2.7	–6.0	109.4
April	1.2	1.8	2.6	–3.1	109.3
May	1.4	1.7	3.0		114.4
June					120.3

GERMANY

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1986	99.9	97.5	103.6	103.8	107.5
1987	100.1	95.0	107.6	107.1	111.0
1988	101.4	96.2	112.6	106.9	110.0
1989	104.2	99.3	117.1	108.0	107.6
1990	107.0	101.0	123.5	110.3	110.0
1991	110.9	103.4	131.3	109.7	107.8
1992	116.5	104.9	138.2	115.4	110.1
1993	121.7	105.1	145.8	119.3	111.4
1994	125.1	105.7	150.8	111.7	109.6
1995	127.4	107.5	155.8	110.7	114.9
1996	129.3	107.1		109.6	109.9
3rd qtr.1996	1.5	–0.6		–2.7	109.9
4th qtr.1996	1.4	–0.3		–4.8	107.9
1st qtr.1997	1.7	0.6		–5.5	106.3
2nd qtr.1997	1.6				105.0
July 1996	1.6	–0.7	n.a.	–2.0	110.0
August	1.4	–0.7	n.a.	–4.0	110.5
September	1.4	–0.6	n.a.	–2.0	109.2
October	1.5	–0.3	n.a.	–3.9	108.0
November	1.4	–0.3	n.a.	–4.9	108.4
December	1.4	–0.3	n.a.	–4.9	107.4
January 1997	1.8	0.7	n.a.	–4.9	106.8
February	1.7	0.6	n.a.	–7.6	106.1
March	1.5	0.7	n.a.	–4.0	105.8
April	1.4	0.9	n.a.		105.4
May	1.6	1.1	n.a.		105.3
June	1.7		n.a.		104.3

FRANCE

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1986	102.5	88.0	104.5	101.8	103.4
1987	105.8	88.1	107.8	103.0	104.8
1988	108.9	102.9	111.5	104.1	102.2
1989	112.6	108.2	115.8	105.2	99.8
1990	116.5	107.1	121.6	109.6	109.0
1991	120.2	105.9	127.1	113.4	100.8
1992	123.1	104.3	132.3	115.6	104.3
1993	125.6	101.6	135.6	118.1	106.7
1994	127.7	102.7	138.2		106.2
1995	130.0	109.7	141.5		108.2
1996	132.6	105.8	144.8		106.3
3rd qtr.1996	1.9	–5.2	2.6		106.2
4th qtr.1996	1.7	–3.9	2.6		105.9
1st qtr.1997	1.5		3.0		103.5
2nd qtr.1997			2.7		102.9
July 1996	2.3	n.a.	n.a.	n.a.	106.5
August	1.8	n.a.	n.a.	n.a.	106.1
September	1.6	n.a.	n.a.	n.a.	106.2
October	1.8	n.a.	n.a.	n.a.	106.5
November	1.6	n.a.	n.a.	n.a.	105.9
December	1.7	n.a.	n.a.	n.a.	105.1
January 1997	1.8	n.a.	n.a.	n.a.	103.4
February	1.6	n.a.	n.a.	n.a.	103.5
March	1.1	n.a.	n.a.	n.a.	103.8
April	0.9	n.a.	n.a.	n.a.	103.4
May	0.9	n.a.	n.a.	n.a.	103.0
June		n.a.	n.a.	n.a.	102.2

ITALY

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1986	106.1	99.4	104.8	102.6	101.3
1987	111.0	102.2	111.6	105.5	102.2
1988	116.5	105.7	118.4	108.7	101.0
1989	124.2	112.0	125.6	112.3	105.3
1990	131.7	116.2	134.7	118.8	112.0
1991	140.3	120.0	147.9	129.8	113.2
1992	147.7	122.3	156.9	134.5	109.6
1993	153.9	126.9	161.6	136.9	95.3
1994	160.0	131.6	167.0	138.1	93.4
1995	168.6	142.0	172.2	138.1	90.4
1996	175.0	144.7	175.3		102.0
3rd qtr.1996	3.5	0.4	1.7	0.7	102.7
4th qtr.1996	2.7	0.8	1.6		104.8
1st qtr.1997	2.4	0.9	3.9		104.1
2nd qtr.1997					102.0
July 1996	3.6	0.3	1.9	n.a.	102.8
August	3.4	0.4	1.9	n.a.	102.2
September	3.4	0.5	1.3	n.a.	103.2
October	3.0	0.7	1.5	n.a.	104.8
November	2.6	0.9	1.5	n.a.	104.3
December	2.6	0.9	1.8	n.a.	105.5
January 1997	2.6	0.8	3.9	n.a.	106.2
February	2.4	0.6	3.9	n.a.	103.8
March	2.2	0.9	4.0	n.a.	102.1
April	1.7	0.8	3.9	n.a.	102.1
May	1.6			n.a.	102.1
June				n.a.	101.8

UNITED KINGDOM

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1986	103.4	101.4	107.7	104.0	94.3
1987	107.7	104.6	116.3	106.3	94.7
1988	113.0	108.7	126.2	109.2	102.0
1989	121.8	113.9	137.2	114.0	100.6
1990	133.3	121.0	150.1	121.6	101.5
1991	141.2	127.5	162.4	128.4	104.5
1992	146.4	131.5	173.1	129.5	101.0
1993	148.7	136.7	180.9	128.9	93.2
1994	152.4	140.1	189.5	128.9	94.2
1995	157.6	146.0	198.0	132.9	90.8
1996	161.5	149.8	206.8	138.4	93.7
3rd qtr.1996	2.2	2.1	4.5	4.6	93.0
4th qtr.1996	2.8	2.0	4.6	3.4	99.6
1st qtr.1997	2.7	1.2	4.4	2.5	105.7
2nd qtr.1997	2.7	1.0			109.4
July 1996	2.2	2.2	4.4	3.9	93.2
August	2.1	2.1	4.5	5.2	92.3
September	2.1	2.2	4.7	4.8	93.7
October	2.7	2.3	4.0	3.6	96.1
November	2.7	2.1	4.7	4.0	100.2
December	2.5	1.6	5.1	2.8	102.5
January 1997	2.8	1.5	4.2	2.7	104.8
February	2.7	1.2	4.8	2.6	106.2
March	2.6	1.0	4.3	2.4	106.1
April	2.4	0.8	3.9	1.6	108.2
May	2.6	1.0			107.8
June	2.9	1.1			109.1

Statistics for Germany apply only to western Germany. Data supplied by Datastream and WEFA from national government and IMF sources, and by JP Morgan, New York. Consumer prices: not seasonally adjusted. Producer prices: not seasonally adjusted, US – finished goods, Japan – manufactured goods, Germany – industrial products, France – intermediate goods, Italy – total producer prices, UK – manufactured products. Earnings index: not seasonally adjusted, refers to earnings in manufacturing except France and Italy (wage rates in industry). Hourly except Japan (monthly) and UK (weekly). Unit labour costs: seasonally adjusted, measured in domestic currencies. Germany – mining and manufacturing, other countries – manufacturing industry. Real exchange rate: JP Morgan real effective exchange rate index versus 18 industrial country currencies, adjusted for change in relative wholesale price of domestic manufactures. A fall in the index indicates improved international competitiveness.

Washington offer to ease market restrictions boosts prospects of liberalisation

US lifts financial services hopes

By Frances Williams in Geneva

Prospects for global liberalisation of financial services were boosted yesterday by a new offer from the US, which would give foreign companies virtually unrestricted rights to compete in its vast market.

The offer, ahead of a meeting of World Trade Organisation financial services negotiators on Thursday, removes an important restriction in the previous US proposal which guaranteed access to its market only for the existing operations of foreign companies.

Washington is now extending this guarantee to all foreign institutions and to new or expanded financial services. However, the offer is conditional on a satisfactory overall deal being reached by the December 12 deadline for completing the WTO negotiations.

In 1995 the US walked away from a WTO accord liberalising banking, insurance and securities services on the grounds that a number of important developing countries had not gone far enough in opening up their domestic markets. A stop-gap deal, involving the European Union and other WTO members, expires at the end of the year.

Mr Robert Rubin, the US treasury secretary and Ms Charlene Barshefsky, the US trade representative, said yesterday that they expected emerging markets to improve "significantly" on their initial offers, to "establish a level playing field for US firms to compete effectively".

US negotiators have expressed disappointment that Japan's offer, tabled last Friday, did not include firm WTO commitments on the bilateral agreement between the US and Japan to open its insurance sector.

Senior negotiators from the US trade representative's office and the US treasury will be travelling to nine countries in Asia next month to stress the need for more market opening. Their itinerary includes Japan, South Korea, Malaysia, Indonesia, the Philippines, Thailand and India.

Financial services negotiators had set a deadline of yesterday for improved offers in the talks – but only the Quad powers (the US, EU, Japan and Canada) and a scattering of others seemed likely to have met the target.

The EU submitted its offer earlier this month, while Canada's offer is imminent. Most other countries have said they will not be ready to submit proposals before September.

Other improvements in the latest US offer would give foreign banks equal treatment with domestic ones in opportunities arising from recent liberalisation of interstate banking, and remove some residency and citizenship requirements for foreign insurers.

Power equipment hunt heats up

Cosy ties between utilities and suppliers are being broken, writes Stefan Wagstyl

Leading makers of electrical power and transmission equipment are on the lookout for acquisitions.

The industry, with an estimated annual turnover of $60bn, has long lived in the shadow of the power generation equipment producers. Manufacturing overhead cables, switches and transformers has rarely attracted the same interest as building power stations worth $1bn and more.

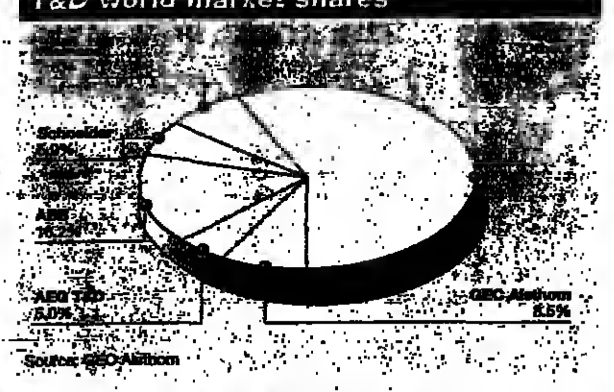
Yet the same pressures which have promoted globalisation of the power generation industry are now acting on the transmission and distribution (t&d) market.

Growing deregulation and privatisation of the global electricity industry is breaking the cosy ties which once existed between state-owned utilities and local equipment suppliers.

Prices are falling fast, putting pressure on margins and costs, and creating opportunities for international groups at the expense of local manufacturers.

This is especially true in the $20bn-a-year market for high-voltage and medium-voltage equipment for distributing power around regions and cities and in industrial sites. Low-voltage equipment, such as household wiring, mostly remains a local industry.

T&D world market shares



Source: GEC-Alsthom

Globalisation has in the past few years forced mergers in power generation equipment. Today, the six leading makers - General Electric; Westinghouse of the US; Siemens of Germany; ABB, the Swiss-Swedish group; Mitsubishi Heavy Industries of Japan, and GEC-Alsthom, the Anglo-French company - together have an estimated market share of 80 per cent in power generation.

But t&d has so far remained a far more fragmented business, with the top four makers – ABB, GEC-Alsthom, Siemens and Schneider of France – accounting for only about 45 per cent of the world market for high- and medium-voltage equipment.

Industry executives think these big companies will increasingly grab a larger share of the market through sales growth and acquisition. "National markets are breaking up," says Mr Rainer Bitsch, a director of Siemens power and transmission and distribution division. "I expect to see more consolidation."

Mr Robert Mahler, managing director of GEC-Alsthom's t&d division, says: "Our customers are going international. So we must offer our services and products globally. I think we'll see more mergers and joint ventures."

Some consolidation has occurred. ABB, formed from Asea of Sweden and Switzerland's Brown Boveri, and GEC-Alsthom, a joint venture between GEC of the UK and France's Alcatel Alsthom, are the results of mergers in the late 1980s.

ABB later established itself as the world's biggest supplier by buying the t&d activities of Westinghouse. Last year, GEC-Alsthom bought from Daimler-Benz of Germany the bulk of its AEG power distribution business, for about DM400m ($225.9m).

The European manufacturers see North America as prime territory for further expansion because of the absence of a strong domestic producer since Westinghouse sold its business to ABB.

GE, the leading domestic power generation equipment maker, has only a modest t&d business, though it does operate in important niches, for example, in a joint venture in high-voltage transmission with Hitachi of Japan and in another established this year with Harris Corporation, in computer-controlled power management systems.

GE has been cautious about t&d because much of the equipment is relatively bulky to make, notably cables and basic transformers. So, much of the business in t&d has gone to local suppliers, even in developing countries. But belief is growing among European manufacturers that the picture could change.

Electricity producers no longer seek the cheapest equipment at the lowest purchase price, but are interested in value-added services such as after-sales repair and maintenance deals. Mr Mahler says: "The pendulum is swinging back in favour of big suppliers who can offer better service to customers".

Technology is playing into the hands of the larger companies, which are able to concentrate on high-margin innovative products such as maintenance-free switches installed in vacuum chambers.

Further into the future loom other innovations with possible commercial applications, including fuel cells – gas-powered devices for storing energy – and superconductors. More important is the rapid development of software for integrating and controlling power networks.

VW's assembly plant near Bratislava: the factory has been developed for low-volume niche vehicles

VW to double Slovak output

By Kevin Done, East Europe Correspondent

Volkswagen of Germany, the leading European car producer, is planning to double car production in Slovakia to more than 60,000 next year from 30,000 in 1996.

The car assembly operation is to move to three-shift, round-the-clock working later this year, as the plant's capacity is raised from 160 a day to around 300 in 1998.

The German carmaker began hesitantly in Slovakia in the early 1990s. But during the past four years it has rapidly developed its plant on the outskirts of Bratislava for both car assembly and gearbox and components production.

VW, which moved operations eastwards partly to offset high costs in Germany, has emerged as the leading foreign industrial investor in Slovakia. Car output, which totalled 3,000 in 1993, is expected to rise to 35,000-40,000 this year.

The Bratislava workforce will be raised to around 2,800 by the end of the year from 2,000 a year ago, and is likely to rise to over 3,000 in 1998.

VW has moved all production of its four-wheel-drive Golf Syncro family hatchbacks and estate cars to Bratislava from Wolfsburg, its main plant in Germany. The Slovak operation is the only plant producing the sophisticated top-of-the-range, four-wheel-drive Golfs for the world market.

The plant has been developed for low-volume assembly of niche vehicles, which can be produced much more cheaply in a flexible, labour-intensive plant with low labour costs – as yet the plant still has no robots – than on the highly automated, capital intensive assembly lines of VW's big German plants.

The company is investing around DM250m ($57m) at the plant in 1997 and 1998, after investment of around DM185m in 1991-1996. It will begin output of the new generation front-wheel-drive Golf in the autumn.

Assembly will start next year of a second range of high-performance gearboxes, which will be used across the group's four VW, Audi, Skoda and Seat brands.

Total transmission output at the plant is planned to rise to between 380,000 and 400,000 next year from 280,000 this year.

Chile stresses bilateral accords

By Stephen Fidler, Latin America Editor

Simmering trade disputes between Chile and the US have emphasised the importance of Santiago's network of bilateral trade agreements, according to a Chilean trade negotiator.

Mr Juan Gabriel Valdes said disputes with the US over salmon and wood products had shown that a multilateral approach to trade relations was not sufficient for a small country.

Bilateral agreements "provide a mechanism for conflict resolution and to deal with arbitrary decisions, particularly the abuse of anti-dumping laws against which we don't have a defence. It means your economic weakness in terms of size will not count against you," he said.

The Chilean salmon industry faces an anti-dumping complaint from US producers, which some years ago successfully pursued a similar case that effectively barred Norwegian producers from the US market. Chile sells about one- third of its annual $538m of salmon exports to the US.

The other case concerns a US court decision to block imports of wood products, taken against the wishes of the US Department of Agriculture, because of a supposed disease risk. "We are not exporters of chips and logs, but of processed wood for furniture," he said.

Chile is next in line for admittance to the North American Free Trade Agreement, but has suspended negotiations with the US, Canada and Mexico until the US Congress provides the administration with "fast track" authority. This allows the administration to negotiate trade deals without a line-by-line veto. Chile, which already has a free trade accord with Mexico, has just approved a Nafta-compatible agreement with Canada.

Hopes rise on common accounting standards

By Jim Kelly, Accountancy Correspondent

The chances of the world's leading stock markets allowing companies to list using one common set of accounts improved yesterday after a marathon meeting called by global standard-setters in Beijing.

Sir Bryan Carsberg, secretary-general of the International Accounting Standards Committee, said the meeting had approved two new standards and five draft standards – putting it on course to meet the deadline set by securities regulators.

In June next year the committee is due to deliver a completed set of core standards to IOSCO – the club of the world's leading stock market regulators – for eventual endorsement.

The Beijing meeting saw the standard-setting body back two accounting treatments which follow the UK's code rather than that of the US – the world's dominant financial reporting framework. The committee is anxious that its framework is seen as genuinely independent. "Sometimes people say we are getting too close to the US. This is pretty clear evidence we debate these things out," said Sir Bryan.

The only part of the core programme required by IOSCO which has no standard or draft is that on financial instruments. Many observers believe this area may be placed on a separate track in order to allow the rest of the programme to be endorsed in 1998.

But Sir Bryan hinted that a breakthrough might be possible at the IASC's next meeting in Paris in late October. "The timing is looking pretty tight on that – I can't give any firm idea of what the future will hold. But don't assume that we are necessarily going to be running late – it's finely balanced."

The committee agreed standards on presentation – how the accounts are laid out – and on segments – the way in which accounts should reflect the different parts of the business rather than merely aggregating data. Draft standards were agreed on how to account for discontinuing operations, intangible assets, business combinations, interim reporting and how to account for provisions and contingencies.

The committee has taken the UK line on amortisation of goodwill – the difference between the value of a whole business and its separate assets. The committee will lift its 20-year maximum period for amortisation but thereafter will require an annual impairment test to check the asset's value.

The committee has also taken up controversial UK plans to limit a company's ability to make provisions. Management will have to demonstrate a specific commitment to incur future costs before a provision is allowed to meet them.

Last week Canadian standard-setters signalled that, if the IOSCO agreement failed, world standard-setting would be dominated by an American body led by the US. "The real emphasis of the Canadian report was 'Let's wait and see'. I don't think that's bad news. They are strong supporters of the committee," said Sir Bryan.

Harare braced for more industrial action

By Tony Hawkins in Harare

Zimbabwean business is bracing itself for further industrial action following a rash of strikes and go-slows which have hit industrial sectors ranging across the economy.

Last week's stoppages and go-slows affected the construction, clothing, security, railway and communications industries, resulting in a rash of pay settlements of over 30 per cent.

The industrial unrest and pay awards are expected to undermine government efforts to curb the deficit in the budget, to be presented next week.

The government, which claims to have convinced the IMF of its seriousness in tackling a budget deficit of more than 11 per cent of GDP, set the ball rolling early in the month when it conceded an award of over 30 per cent to public servants.

With "performance awards", this settlement will cost over Z$11bn (US$966m) over the next 18 months, equivalent to 8 per cent of next year's forecast GDP of around Z$140bn (US$12.2bn at current exchange rates).

Private-sector employers, many of which had been hoping to keep wage awards below the forecast inflation rate for this year of 24 per cent, were taken unawares by the government award to public servants. Labour unions have been quick to interpret the settlement as the norm for the economy.

The catering industry offered workers 34 per cent to cut short a stoppage in the hotel industry, but employees are demanding a larger increase.

At the weekend, employees at the state-owned Posts and Telecommunications called off their industrial action after being offered 32 per cent plus a 53 per cent increase in allowances.

The Commercial Workers Union settled for 30 per cent but talks are continuing on increased fringe benefits, while workers in the clothing, construction and security industries and at the national railways remain on strike.

There is also a go-slow at the country's main insurance company, the Old Mutual, and warnings of stoppages in other sectors including banking and some parts of the transport industry.

The industrial unrest does not come as a surprise given the steep fall in real earnings since the launch of the World Bank's structural adjustment programme in 1990. Since then, average earnings across the economy have risen 144 per cent from Z$7,040 a year to Z$17,150 last year.

After adjustment for inflation, however, real earnings have plummeted 40 per cent as nominal wages have fallen far behind inflation, which has averaged over 25 per cent annually.

Trade union anger has also been fuelled by rapidly escalating unemployment.

Since 1990, less than 50 000 jobs have been created, in a period during which more than 900,000 people have entered the labour market. Unemployment is currently estimated at around 35 per cent.

Inflation fuelled by strikes and pay settlements will undermine government efforts to curb its deficit, in budget plans to be announced on July 24.

World Bank to assess policy impact on poor

By Mark Suzman in Washington

The World Bank has launched a wide-ranging review in conjunction with national governments and citizen's organisations groups in developing countries to assess the full social and economic impact of its policies on the poor.

Mr James Wolfensohn, World Bank president, said yesterday at the first global forum of the Structural Adjustment Participatory Review Initiative that the programme marked a crucial step towards overcoming the "incredible antagonism" that had come to characterise the relationship between the Bank and many governments and "civil society" groups – non-governmental organisations.

"This has to be a joint exercise," he said. "I don't think the Bank can do this alone. There has to be a three-way partnership."

The initiative, known as Sapri, will initially be carried out in seven countries: Ghana, Mali, Uganda, Zimbabwe, Ecuador, Hungary and Bangladesh.

Mr Wolfensohn said efforts were being made to encourage some larger emerging markets, particularly in Latin America, to participate but so far the Bank had not been able to get the necessary governmental consent.

Sapri grew out of discussions between the World Bank and representatives of about 500 non-governmental organisations with the aim of developing a study to examine the impact of structural adjustment policies on people who have not benefited or participated in the programmes.

The NGOs have argued that development policies have often been particularly harmful to the poorest sections of the population, and accused the World Bank of failing to make proper use of local information in planning new policies.

The initiative's principal objectives are to demonstrate that participation of broad-based civil society can improve economic policy-making and to identify "practical and necessary" steps to improve the life of ordinary people in each country.

In each participating country, a national steering committee comprising representatives from NGOs, the government and the World Bank will be set up to co-ordinate a series of public forums and field studies to examine the issue.

Joint bid to end Hebron clashes

Palestinian and Israeli forces yesterday worked together to restore calm to the West Bank town of Hebron following three weeks of clashes in which more than 150 youths were injured, Judy Dempsey reports from Jerusalem.

The move follows talks between senior Israeli and Palestinian security officers at the weekend when they also agreed to resume joint patrols in parts of the West Bank and reopen shops close to Hebron's Jewish quarter.

Some 200 Palestinian policemen stood on the invisible border dividing the 80 per cent of Hebron handed over to PLO self-rule from the 20 per cent held by Israel.

The co-operation comes in the wake of a meeting between Mr Yitzhak Mordechai, the Israeli defence minister, and Mr Nabil Shaath, Palestinian chief negotiator. They said they had discussed the long overdue opening of an airport in Gaza as well as establishing a safe corridor between Gaza and the West Bank.

Such measures, they said, could help restore confidence and revive peace talks suspended since March when Israel started work on a new Jewish settlement in east Jerusalem.

Palestinian policemen in Hebron yesterday tries to cover the camera Reuter

Airport jewel in Palestinian crown

Fate of important symbol of sovereignty rests with Israel, says **Judy Dempsey**

The road leading south from Gaza City cuts through orange groves, skirts along Jewish settlements and eventually comes to a heavily guarded Palestinian roadblock.

It is no ordinary checkpoint. The soldiers are manning what will soon become one of the most important institutions of Palestinian statehood – Gaza International Airport.

Behind the high fences and the high arches of the Islamic-style terminal buildings, the runway and control tower are all but finished. Work on the departure and arrivals terminals is going flat out in the hope of completing the airport in a few months.

But completion will not lead automatically to the opening of the airport. Its fate rests with the Israeli government, which in the coming weeks will decide if it will allow the airport to open as a gesture to restart the peace talks.

The Israelis are concerned that a Palestinian airport would provide a conduit for weapons and terrorists. Nevertheless, they signed up to a formula in the 1995 Oslo accords which allowed members of the Palestinian Council to fly in and out of Gaza.

Nothing specific was said at that time about building an airport for Palestine – although "provisional airstrips" were sanctioned. Even so, the Palestinian Authority started 18 months ago carving out a 2.3 sq km plot of land for its new airport. Since then, both sides have argued over security arrangements while the Palestinians have pressed ahead with the foundations.

It was only after the signing of the Hebron agreement last January that a special Israeli and Palestinian committee was set up to deal with Gaza airport. "We are now waiting for the political green light from the [Israeli] government," said an Israeli spokesman.

Mr Fayez Zaidan, chairman of Palestinian National Airlines, chairman of the Palestinian Civil Aviation Authority and head of the Palestinian airport negotiating team, said most of the problems with the Israelis had been ironed out. "The Israelis know how much this airport means to our statehood. I think this is one of the reasons why they are dragging their feet," he said. The Israelis say it is about establishing the security criteria.

Sitting in his Gaza City office, decorated with small model aircraft and a huge picture of the new airport, Mr Zaidan spelt out what he believed had already been agreed in principle.

"Although we have not yet signed the protocol, it has been agreed that the director general of the airport be Palestinian and not Israeli, which the Israelis first wanted, and that the airport police be Palestinian," he explained.

But Mr Zaidan added there would be a joint Israeli and Palestinian team in one of the security rooms and a joint air traffic control office "for co-ordination". To meet Israel's security concerns, the Palestinians would allow the Israeli authorities to see the passenger list in advance, and along with Palestinian ground staff, to escort aircraft to the parking positions. "And above all, Israel will have sovereignty over the airspace," added Mr Zaidan.

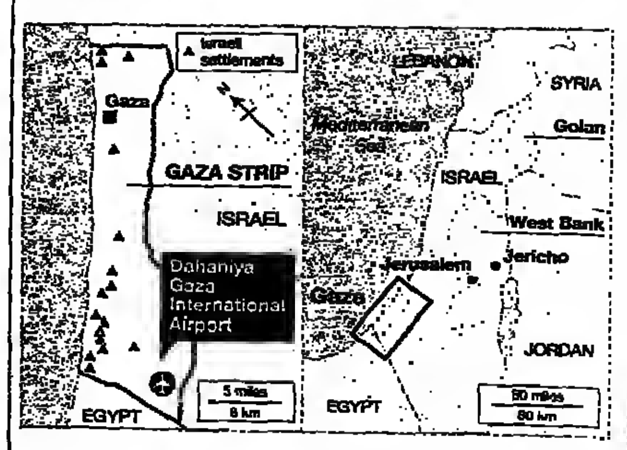
If there is any sticking point, it is the Palestinians' insistence that Israel should not be allowed to decide unilaterally which outside airlines can use Gaza.

Although talks between both sides have remained suspended since Israel's decision to build a new Jewish housing settlement in south-east Jerusalem, Mr Zaidan has secured enough financial backing to build the airport.

Egyptian banks have provided $18m in soft loans to finance part of the civil works. The Spanish government has provided $4.5m for fire-fighting material, equipment, buses and conveyor belts and an additional $21.5m in soft loans for maintenance, radar stations and air traffic control equipment. Germany has donated $10m worth of navigation aids and other landing signals equipment.

The airport will be able to handle 500,000-750,000 passengers a year. More crucially, it will give the narrow Gaza Strip a window on the outside world, increasingly important for an economy cut off from the West Bank and often from Israel because of regular closures.

"The airport will boost investment. But above all, it is important for our sovereignty. It will be the crowning moment of my career," said Mr Zaidan.



Algiers bomb kills 21 amid surge in violence

By Roula Khalaf in London

A bomb exploded in the crowded market of an Algiers suburb yesterday, killing 21 people and wounding 40.

The explosion in Baraki came amid a surge in violence which has left more than 300 people dead since the June legislative elections, which the army-backed government claimed would help reduce the five-year violence.

The explosion, which the government blamed on extremist Islamist groups, was the worse bomb attack in the capital since last February. A blast in an Algiers cinema last Wednesday left 20 people dead.

Newspapers also reported yesterday that armed bands killed 44 people in three separate massacres on Sunday, in villages in Medea, 100km southwest of Algiers. One newspaper said the armed groups kidnapped 21 girls from a village.

News agencies reported from Algiers yesterday that the bomb was hidden in a bag and left in the market, as has been the case in other attacks. On Sunday, the government promised to enforce security measures that it had issued last month and step up searches in public places.

The June elections, which swept pro-government parties to victory, had excluded the Islamic Salvation Front (FIS), the party which had been stripped of an election victory in 1992, the event which provoked Algeria's descent into chaos.

In spite of the upsurge in attacks in recent weeks, foreign ministers from 11 Mediterranean countries gathered in Algiers last weekend for an informal meeting to advance co-operation between countries on both sides of the Mediterranean. The event was seen as an important step in Algiers' attempts to emerge from its international isolation.

APPOINTMENTS

Clinton backs healthcare ban on genetic discrimination

By Gerard Baker in Washington

President Bill Clinton yesterday backed legislation that would make it illegal for US health insurance companies to discriminate against healthy people on the basis of their genetic inheritance.

The president endorsed a report by the Department of Health and Human Services that recommended closing loopholes in existing legislation that allow insurers to charge extra premiums and exclude certain individuals from coverage altogether. The president also supported the department's proposal to strengthen privacy laws for those found to be predisposed to genetic disorders.

"We don't need inadvertent discrimination in the insurance market – particularly in health insurance markets," said Mr Mike McCurry, the White House press secretary, announcing Mr Clinton's support for the proposal.

The president urged Congress to support legislation currently under consideration that would prohibit healthcare plans from requesting or using genetic information to deny coverage or raise premiums. The administration's support for the bills means they are almost certain to become law within the next year.

The report noted that leaps in medical research in the last few years had identified a genetic link to a growing number of serious illnesses. Americans had benefited from the widespread availability of genetic testing for susceptibility to a range of diseases and conditions, including breast cancer and Huntingdon's disease. But it warned that people were increasingly inhibited from undergoing genetic screening because of fears they might be denied insurance or forced to pay higher premiums.

"While progress in genetics can help millions of Americans, we know that genetic testing can be used by insurance companies and others to discriminate and stigmatise people," the report said.

Last year, Congress passed legislation that prohibited insurance companies from refusing cover to members of group health insurance schemes on the basis of their susceptibility to genetic disease. But it left the way open for insurers to charge extra premiums for cover for such members, and it did not apply to millions of Americans in individual health insurance schemes.

The bill now supported by Mr Clinton would forbid insurers in the individual market to deny cover; ensure that premiums charged to all the insured do not reflect genetic risk factors; and prevent insurers from sharing confidential genetic information with others, such as life assurance companies.

Insurance companies expressed concern at the president's support for the new restrictions. "The proposed legislation will drive up healthcare insurance premiums in the individual market by forcing healthier people to cross-subsidise the less healthy," said Mr Richard Coorsh, a spokesman for the Health Insurance Association of America. But the overall additional effect would be small, he added, as insurers already faced similar restrictions at state level.

Peru TV report on phone tapping prompts protests

By Sally Bowen in Lima

Massive anti-government protests were being prepared in Lima yesterday against what are being seen as further constitutional violations by the administration of President Alberto Fujimori.

The protests were sparked by two related incidents on Sunday. First, an investigative television programme revealed proof of systematic telephone tapping by the Peruvian authorities. Then within hours, the official government gazette – in a special edition – announced that Mr Baruch Ivcher, majority shareholder in the television channel which had made the revelations, was being stripped of the Peruvian nationality he acquired in 1984. It alleged technical irregularities in the naturalisation process.

"This affects the essence of Peru's juridical security," said Mr Jorge Santistevan, Peru's "defender of the people" (a type of ombudsman). "It makes it difficult to talk of the rule of law in this country today." Both the withdrawal of Mr Ivcher's nationality and the telephone tapping were blatant violations of the Peruvian constitution, he said.

Mr Javier Pérez de Cuéllar, the former United Nations secretary-general who ran unsuccessfully against Mr Fujimori in the 1995 elections, said he was "indignant at the shameful attack" on Mr Ivcher, and at the telephone tapping scandal. "Peru is living a permanent coup d'état," he said.

Until late last year, the channel – whose viewers are primarily Peru's working classes – had been strongly supportive of the administration, especially of its counter-terrorist strategies. More recently, however, it has rejected government attempts to feed it information and has screened a series of highly damaging reports: it broke the news of intelligence service tortures and killings earlier this year and leaked the tax returns which confirmed the huge amounts earned by Mr Vladimiro Montesinos, Mr Fujimori's much-questioned but highly influential senior security adviser.

It is assumed that revoking Mr Ivcher's nationality is a prelude to seizing his majority stake in the channel, since foreigners are not permitted to control television channels in Peru.

Apparently irrefutable evidence of widespread telephone tapping, meanwhile, simply confirms Peruvians' long-standing suspicions.

Reaction in the US to Sunday's events is likely to be strong. The heads of the Senate and House foreign relations commissions, Mr Jesse Helms and Mr Ben Gilman, have already expressed concern about the apparent persecution of the Israeli-born Mr Ivcher. Mr Dennis Jett, the US ambassador to Peru, has warned that Washington is monitoring events closely.

Caracas curbs banks

Venezuelan financial institutions were from yesterday required to lodge more of their reserves with the central bank as part of the bank's efforts to soak up excess monetary liquidity, Raymond Colitt writes from Caracas.

The requirement for all institutions to lodge 15 per cent of reserves, up from 12 per cent, will increase the cost of lending by forcing banks to set aside more of their deposits. It comes as strong fiscal spending is increasing inflationary pressure and keeping interest rates negative in real terms.

Government spending has risen recently as a result of wage increases agreed earlier this year and one-off payments made as part of a recent reform of the severance pay system.

Commercial interest rates have inched up in recent weeks after aggressive open-market intervention by the central bank as well as a gradual recovery in credit demand. Yet interest rates still do not exceed the 12-month inflation forecast of 25 per cent.

The central bank is to begin using long-awaited treasury bonds in coming weeks as part of its open-market intervention. The bills form part of a government scheme to cancel a $3.7bn debt with the central bank.

Global pressures felt in US heartland

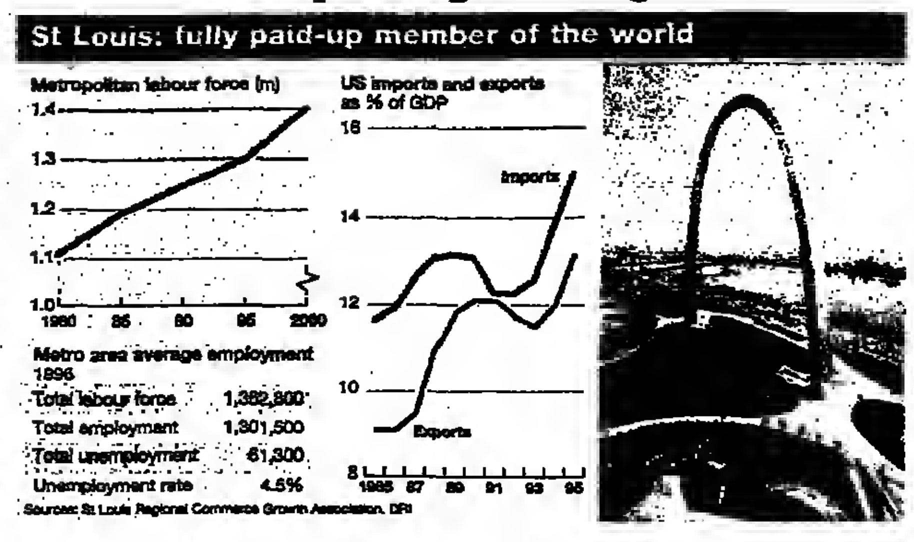
Even landlocked St Louis is responding to changes in world trade, reports Gerard Baker

St Louis seems an unlikely place from which to view the revival of the US economy. The city took some hard knocks in the 1980s, along with much of the industrial Midwest, from a shrinking manufacturing base. Since then it has enjoyed steady, if unspectacular, growth. Its unemployment rate is in line with the national average, its citizens' standard of living a little higher.

But in one critical respect St Louis provides an unusually clear perspective on the changes that have overtaken US business in the last decade. Like many of the country's employers, local companies no longer think locally, according to Mr Richard Fleming of the St Louis Regional Commerce Growth Association. They think globally.

"It is not just familiar large companies, but small and medium-sized businesses. They have almost all taken on an international perspective now," he says.

St Louis' companies have for years enjoyed having the world's largest internal market on their doorstep: one-third of the US population lives within 500 miles. But in the past few years, even landlocked St Louis has felt the impact of globalisation.



Necessity has been the driving force. In the 1990s the rapid industrialisation of Asia, the tearing down of global trade barriers and the end of the cold war have intensified global competition, in both domestic US and international markets.

In the US as a whole, trade has mushroomed. The competitive pressures this has unleashed have transformed traditional St Louis companies. The chemical giant Monsanto is still one of the area's largest employers. But, where it was once synonymous with smokestack factories, Monsanto is now a "life sciences company". Most of its business is focused on research and development; its manufacturing is slim and efficient; some see it as the Microsoft of the chemicals industry.

This change has been achieved at a cost. In the past five years, Monsanto has restructured, cut the payroll by thousands, reduced costs, sold off many businesses and invested heavily in the remainder. According to Mr Nick Filippello, the company's chief economist, the driving force behind much of the changes for his company and the US as a whole has been the pressure of globalisation.

"More open international markets have really put US companies' feet to the fire," he says. "If you can't count any more on being protected from foreign competition you have no choice but to sharpen your competitiveness."

The main impact of the increased competition has been on the company's ability to raise prices. In the past, higher costs could be passed on to customers. Not any more. With hungry competitors pressing for market share, price stability is now a fact of life.

Globalisation also helps explain why, despite the success of US companies, many workers feel they have not benefited. Restructuring has cost millions of jobs in the US and global competition has restrained wage growth.

According to the US Labor Department, total labour compensation costs have risen far less in the US than elsewhere as trade has grown. Between 1985 and 1996, after stripping out exchange rate changes, total pay rose by just 36 per cent in the US, compared with 51 per cent in Japan and 69 per cent in Germany.

Some economists believe the effects of globalisation on the economy have been overstated. After all, they point out, trade still accounts for less than a third of total economic activity, a much smaller proportion than in most European countries, for example.

But globalisation goes beyond trade. Direct investment, both into the US by foreigners and outside the US by Americans, has grown even faster than the growth of trade. The total stock of foreign direct investment in the US tripled between 1985 and 1995. US investment abroad doubled over the same period.

"Globalisation is not simply a manufacturing phenomenon," says Mr Murray Weidenbaum, professor of economics at Washington St Louis University, and chairman of President Ronald Reagan's first council of economic advisers.

"Freer capital markets mean services can move overseas too."

But why has the US adapted better than other countries to the challenge? The answer, many economists believe, is the greater flexibility US companies are able to deploy, unfettered by rigid labour laws.

"Globalised markets have improved the bargaining power of US managers vis-a-vis their employees and their suppliers," says Prof Weidenbaum. "That's created an environment in which traditional American entrepreneurship has thrived."

Peugeot leads scooter market

Japanese two-wheelers lose ground to Europeans

By John Griffiths

Japan's manufacturers of small motor-scooters, which less than a decade ago supplied almost 90 per ceot of machines sold in the UK, are retreating before a flood of stylish and innovative European-designed and built two-wheelers.

Honda, Yamaha, Suzuki and Kawasaki saw their combined share of the UK market plummet to 34-35 per cent in the first half of this year, according to industry statistics.

Honda, which had a market-leading 32 per cent in the same period last year, saw its own share sink to 18 per cent, marginally behind the fast-rising Piaggio of Italy.

The French Peugeot group is oow the clear market leader. Its increasingly wide range of machines styled to resemble sporting motor scooters has lifted its share to 24 per cent from barely 11 per cent a year ago.

Acknowledging that the figures were "broadly accurate", Mr Kevin Kelly, director of the Motorcycle Retailers Association, said: "It does seem Peugeot and Piaggio are showing the Japanese a thing or two."

Like some of Japan's leading carmakers, which have beeo struggling to maintain their market share in Europe, Japanese makers of two-wheel motor vehicles have faced increasing criticism that their once-famous design and styling flair has been losing momentum.

Japanese manufacturers still dominate the market for fully fledged motorcycles, however. Their UK market share of 76 per ceot is virtually unchanged in this year's first half.

Eveo so, they have been unable to prevent further success by the resurgent Triumph, based in the English midlands, whose 2,669 sales of up-market sports motorcycles in the year's first half represented a 57 per cent jump from a year earlier.

However, Triumph's share of the UK market rose by less than one point to 6.6 per ceot from 5.7 per cent. This reflects the sharp rise in motorcycle sales overall this year: units sold increased by 36.3 per cent to 40,172.

"The sales figures for the first six months of the year clearly demoostrate that even in one of the wettest Junes for years, the motorcycle is making a comeback, with the public acknowledging the lower costs and shorter journey times," Mr Kelly said.

The catastrophic decline in recent years of the powered two-wheeler market, which fell from a peak of 315,000 in 1979 to about 40,000 early this decade, "is clearly a thing of the past", he added.

The increase in the much smaller motor-scooter market has also been steep. Sales rose by 23.6 per cent in this year's first half to 4,376 from 3,541 in the same period a year ago.

Immediately following the launch of several European designs in early summer, however, sales shot up by 77 per cent in June, to 1,119 for that month alone.

Ashley Ashwood

Long interval at the opera: rebuilding has started, with 95 per ceot of contracts signed

Royal Opera House bows out until 1999

By Antony Thorncroft

The Royal Opera House, at Coveot Garden in central Loodon, temporarily closed its doors last night, after a gala attended by the Prince of Wales and enlivened by performances from stars including Placido Domingo and Darcey Bussell.

When it re-opens in December 1999 with a new production of Verdi's *Falstaff*, the Victorian auditorium will be little changed. But the backstage operations will have been completely transformed.

Covent Gardeo has embarked on the controversial £214m ($361.6m) redevelopment mainly to modernise its working practices. Some backstage machinery pre-dates the first world war and operating it requires a large crew.

There will also be new changing and rehearsal rooms and a 450-seat studio theatre in which more experimental work can be staged. The adjacent Floral Hall will be transformed into a foyer space, with bar and restaurant areas.

The scheme has aroused controversy largely because of its use of funds from the National Lottery: the £78m given towards the refurbishment by the arts lottery fund is its biggest grant to date.

Covent Garden has committed itself to raising the rest of the money and an appeal has already brought in almost £70m, moinly from rich individuals, towards its £100m target. Many of those present last night were contributors.

The rest of the £214m will come from the selliog or leasing space at the rear of the development.

Rebuilding has already started, with 95 per cent of the contracts on the work signed.

But Covent Garden could face industrial action from builders. The GMB union is threatening strikes over a pay dispute and has earmarked the Royal Opera House as a high profile project, likely to be affected.

Covent Gardeo narrowly avoided its own industrial dispute as it laid off 300 staff before the closure. It has also attracted public criticism from Mr Chris Smith, the heritage minister, who said that the lottery grant was dependent on the Royal Opera House making access to its performances easier for the less affluent when it re-opens.

During the closure Covent Garden will perform seasons in various London theatres and will also tour.

Railway regulator builds up a head of steam

With the completion of privatisation John Swift has adopted a higher profile, says Charles Batchelor

Mr John Swift, the rail regulator, is getting tough with the UK's privatised rail groups. Last week he added the train operators' hopelessly inefficient telephone answering bureaux to his target list, threatening fines running into millions of pounds unless they improved performance.

This followed earlier attacks on the failure of Railtrack – which owns and operates the stations, track and signalling of the former state network – to meet its investment targets, and a warning to train operators that they would be expected to go beyond the letter of their contracts in improving services.

But after three years of relative obscurity, Mr Swift's decision to adopt a higher profile has prompted complaints from some of the privatised rail companies that this is an attempt at "regulation by headline".

Others have suggested that he is attempting to curry favour with the new Labour administration to save his job.

Mr Swift, a former competition lawyer with a shrewd appreciation of the realities of power, admits that the move to a higher profile has been deliberate. But he denies it has anything to do with a desire to secure his position.

"Until December, we operated rather like a charity, doing good works in private," he explains. But the completion of the privatisation of the passenger railway – and the ending of the period during which he was obliged to accept the "guidance" of the secretary of state for transport – persuaded him that a more public presence was necessary.

"When privatisation was still going through, high profile criticisms by me would have been seen as an attack on the process," he says. This would have conflicted with the regulator's duty to promote the railway as well as being politically unwise.

The new approach was launched in January – with a warning to the train companies to improve ticket information – in a deliberate attempt to establish the regulator's political impartiality. It would not have been sensible to appear suddenly to convert to a more active role after an election which brought a new government to power.

Mr Swift may reject the charge that he is regulating by headline but conducting visible campaigns to improve rail services does strengthen his hand against some formidable adversaries.

Railtrack, a concern of many in the industry because of its monopoly, at first appeared ready to confront the regulator over his demands for tougher controls on its investments.

But 10 days after warning that tighter regulation would "lead to more bureaucracy, second guessing of decisions and a loss of flexibility", Sir Robert Horton, Railtrack

Shrewd: former lawyer John Swift

chairman, backed down. He accepted "that Railtrack should be publicly accountable for its network management plans for the delivery of output measures to be agreed".

Mr Swift, now 56, has another 18 months of his five-year tenure to serve. As one of the key people involved in devising the framework of the privatised railway – regulators of other industries were appointed after the privatisation process – he would be well placed to serve a second term, though a return to lucrative private practice would also be an option.

But the whole issue of rail regulation is under review. The government has been highly critical of the effectiveness of the system. It has also promised to establish a strategic rail authority which might combine the twin roles of rail regulator and franchising director.

There is little dispute that rail regulation should be simplified. Having both the regulator and a franchising director responsible for different aspects of supervision does not make for clarity.

Whatever format Labour opts for, however, there is clearly a need for a determined defender of passengers' interests. Mr Swift's current campaign seems set to cast him in that role.

هكذا من الاصل

Marc Andreessen
Uber-Webmaster
Netscape Communications

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Virgin chief promises motor sports rival in event of pull-out over tobacco

Branson in Formula One pledge

By Nicholas Timmins and John Griffiths

Mr Richard Branson, chairman of the Virgin group, yesterday delivered "a pledge" to set up a rival to the Formula One motor racing business if it carries out its threat to pull out of Silverstone, venue for the British Grand Prix, when the government bans tobacco advertising and sponsorship.

Virgin companies would also take over sponsorship of any other sport which claimed it could not survive without tobacco advertising, be told an international summit on tobacco control in London organised by the government.

Richard Branson

Mr Branson, who gave up smoking two years ago after 10 years of trying, said Formula One and the tobacco industry had no right to "blackmail" the government.

The threat to leave, he said, was "a bluff". But if it happened "we would be very happy to set up a rival Formula One both here and around the world if necessary".

An alternative would be to bring the North American Indycar series to the UK if it could be persuaded to wean itself off tobacco cash.

"I don't believe it will be necessary," he said. Other sponsors would step in because once tobacco went, the cost of Formula One sponsorship would fall.

Cigarette manufacturers were so desperate for the exposure to the young which Formula One provided that they "overpaid" for sponsorship by 10-15 per cent, forcing up its price.

Asked how much a rival operation would cost, Mr Branson said: "It would be much less than setting up an airline, but obviously it wouldn't be cheap." He added, however, that the drivers could be paid £250,000 ($422,500) a year instead of £5m-£10m.

Motor sport was dismissive of Mr Branson's pledge. Mr Max Mosley, the president of its world governing body, the Federation Internationale de l'Automobile, said motor racing was "an area about which Mr Branson knows nothing. His record in areas where he knows nothing – as with cleaning up litter for Mrs Thatcher – is not very good."

If he financed some new racing in Europe, Mr Mosley said, "we shall be glad to consider it. But a rival to Formula One – I don't think so."

Formula One has become a global sport and business matched in audience size only by World Cup soccer and the Olympic games. But it takes place 17 times a year and sponsors are prepared to pay the millions it demands because of the global reach. In addition, no driver could risk taking part in a rival series lacking FIA's sanction without losing his licence – the ticket to his livelihood.

Agencies' business may be limited by Lloyd's

By Christopher Adams, Insurance Correspondent

Lloyd's of London could impose limits on the amount of business controlled by the agencies managing its insurance syndicates in a bid to head off the growing concentration of market capacity in fewer hands.

Lloyd's said yesterday it was concerned that rapid consolidation among the managing agencies threatened both to concentrate big risks among too few insurance syndicates and reduce customer choice.

Mr Andrew Duguid, head of policy and planning, suggested Lloyd's could take 15 per cent of its overall capacity as a "starting point" in considering the maximum amount of business any one group should be allowed to control. A working party is being set up to decide whether restrictions should be imposed.

Capacity is the total premium income which Lloyd's can write annually. Two managing agency groups control half of this year's £10.3bn ($17.4bn) capacity. The largest of these, comprising two agencies owned by investment trust Limit, have 7.5 per cent.

The review comes as Lloyd's carries out a far-reaching review of its capital base. The market is struggling to increase its share of world-wide business as competition intensifies. Managing agents have merged both with each other and with the new-style corporate investors that are replacing Names – the individuals whose personal wealth has traditionally supported the market – and which will probably provide more than half of the capacity next year compared with 44 per cent now.

The consolidation has created insurance companies with a larger slice of capacity and posed a problem for Lloyd's, since some syndicates may be more exposed to future losses and the range of insurance on offer may become limited.

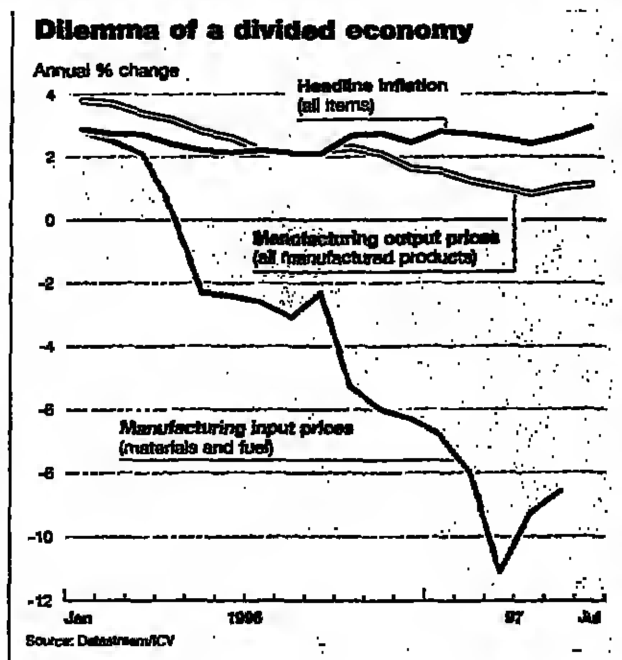
In addition, Lloyd's is concerned that corporate investors may be more fickle than Names. If they acquire large blocks of capacity and then withdraw when underwriting profits fall, the stability of Lloyd's capital base could be undermined.

Mr Duguid warned it might be necessary to prevent underwriters from insuring too large a portion of any one risk. Lloyd's syndicates have traditionally underwritten large chunks of business such as oil rigs and jet airliners collectively. However, some are beginning to use their increased capacity to underwrite a larger slice of such risks.

But changing the way Lloyd's operates is complicated by its unique structure. The society's ruling council does not have as much influence over its capital base as the board of a commercial company and would have to tread carefully during its review so as not to breach laws governing competition.

Some underwriters are doubtful that capacity restrictions are necessary. "One per cent of Lloyd's can destroy the market," said Mr Robert Hiscox, chairman of Hiscox plc, a managing agency. "But someone can have 20 per cent and it's as safe as houses."

Dilemma of a divided economy



Source: Datastream/ICV

Factory output prices stable

There is virtually no inflation in the UK's manufacturing sector, according to government figures published yesterday, but economists warned that the good news on factory gate prices would not stop interest rates from rising further, Wolfgang Münchau writes. Factory output prices – excluding food, drink, petroleum and gas – rose by 0.6 per cent in the year to June. Input prices for materials and fuel purchased by manufacturers fell by 1.4 per cent during June, and were down by 8.6 per cent from a year earlier. Low output price inflation and negative input price inflation were caused by the rise in sterling. This has lowered the price of imports and hit profit margins of exporters.

Two meat plants in probe are shut down

By George Parker and Alison Maitland

Two meat plants were yesterday shut down by Mr Jack Cunningham, agriculture minister, on suspicion that they may have been involved in an illegal operation to export British beef.

Mr Cunningham said he had ordered the suspension of production at the two plants with immediate effect, in the interests of public health.

It is understood the two sites concerned are the Heine cutting plant at Hoddesdon, north of London, and the Safex cold store in Stoke-on-Trent, in the English Midlands.

The agriculture ministry refused to say whether the two plants were suspected of acting in tandem, or whether any other meat producers were also under investigation.

Mr Cunningham will travel to Strasbourg today to answer questions from MEPs about the illegal export of 1,600 tonnes of British beef, in defiance of the worldwide ban introduced in March 1996.

He said yesterday's decision to take action against the two meat plants followed work by ministry officials and the European Commission anti-fraud unit.

"Evidence is coming to light that some UK-based companies may have been exporting UK beef," he said.

"There is evidence too that the companies in question have been failing to comply with the basic requirements on record-keeping, whose purpose is to ensure that the origins of meat can be traced, and falling down on hygiene standards.

"I am determined to crack down hard on anyone who runs risks with public safety and I am absolutely determined the inquiries into this complex affair should be pursued to the end."

Neither company was available for comment last night.

UK NEWS DIGEST

Airline staff seek fresh talks

A threat of significant escalation to the disruption facing British Airways passengers was averted yesterday when the leaders of 9,000 ground staff decided to seek fresh talks rather than go on strike. The main dispute facing BA, involving cabin crew, is still to be resolved, with flights continuing to be hit yesterday following last week's 72-hour strike over pay.

But the decision of the TGWU transport union to seek further negotiations over the sale of the airline's catering operation came as a relief to BA ahead of its annual meeting with shareholders today. Mr Robert Ayling, BA's chief executive, said: "We have said ever since we announced the sale of our catering business that we wanted talks with employees and their unions to ensure we protected their interests in the transfer to the new business. We will happily work with them to this end." *Andrew Bolger*

■ PENSIONS MIS-SELLING

DBS faces record $845,000 fine

Shares in DBS Management, the business support services group, fell nearly 6 per cent yesterday after it emerged that it was liable for a record £500,000 ($845,000) fine from the Personal Investment Authority for failures linked to the pensions mis-selling review. The fine would be the biggest imposed by the PIA on any company, and the biggest imposed by a regulator for mis-selling-related offences. DBS, based in the north of England, represents 1,700 firms of independent financial advisers.

Mr David Stewart, finance director, said he understood DBS was being fined for being too slow with its mis-selling review and for deficient control procedures. He said the company would make representations to the PIA's disciplinary committee and could later appeal against the size of the fine. *Christopher Brown-Humes*

■ AIRPORTS

Rival centres urged to co-operate

The government yesterday rejected proposals for an expansion of Liverpool airport in north-west England but urged its new owners, Peel Holdings, the property group, to co-operate with rival Manchester airport, 60km away, over future development. Mr John Precott, deputy prime minister, also gave the green light for a 50-hectare business park on part of the Liverpool airport site and said he would not intervene in plans for a new air freight depot at Manchester airport. Mr Prescott, also transport and regional policy secretary, said these decisions confirmed the government's commitment to a strategic approach to regional economic development. *Charles Batchelor*

■ NORTHERN IRELAND

Backlash over republican contacts

The government faced a backlash from pro-British unionists tonight after it admitted maintaining secret contacts with Sinn Féin, the political wing of the Irish Republican Army. Unionists said Mr Tony Blair, the prime minister, had a serious credibility problem after revelations that officials kept up contacts despite his pledges to end exploratory talks after the murder of two policemen last month. Ms Mo Mowlam, the chief minister for Northern Ireland, insisted that no negotiating had taken place.

LAW

Broadcasting across borders

EUROPEAN COURT

The European Court of Justice has ruled that the application of a domestic broadcasting law, which provides that advertisements broadcast in TV commercial breaks must not be designed to attract the attention of children under 12, to television broadcasts from other member states is precluded by Directive 89/552/EEC, the Television Without Frontiers directive.

However, it further held that Community law does not preclude a member state from taking, pursuant to national consumer protection legislation, measures against an advertiser in relation to television advertising broadcasts from another member state.

The cases concerned matters referred to the Court by the Swedish *Marknadsdomstol* following the application by the Consumer Ombudsman for orders restraining certain advertising broadcasts retransmitted to Sweden by satellite from the UK by various companies.

The first order was sought against the advertising of a children's encyclopedic magazine containing information about dinosaurs and a related model dinosaur. The Consumer Ombudsman applied for an order restraining this activity on the grounds that it contravened Article 11 of the Swedish Broadcasting Law which prohibits advertising designed to attract the attention of children under 12. The ombudsman also sought orders restraining the advertising of "infomercials" for skincare products and a detergent.

The *Marknadsdomstol* referred two questions to the Court. First, it was asked whether Community law prevented member state action against television ads which an advertiser has broadcast from another member state. Second, the national court wanted to know whether Community law precluded the application of Article 11 of the Swedish Broadcasting law.

As regards the first question, the Court noted that the harmonisation of broadcasting and distribution of TV programmes brought about by the directive was only partial. For example, it provides that TV advertising must not be discriminatory or encourage behaviour prejudicial to religious or political beliefs, health and safety or the environment.

In relation to the free movement of goods, the Court held the application of the Swedish legislation was not precluded if four conditions were met. First, the national legislation must affect in the same way, in law and in fact, the marketing of domestic products and those of other member states. Second, it must be necessary to meet overriding requirements of public interest or one of the aims laid down by permissible derogations under the EC treaty.

Third, that it is proportionate for that purpose. Fourth, those aims or overriding requirements could not be met by measures less restrictive of intra-Community trade. The Court applied a similar test in assessing the compatibility of the national legislation with the freedom to provide advertising services under Community law. However, the compatibility of national legislation with these tests was a matter for the national court to determine.

In answering the second question, the Court noted that the directive permits member states to lay down more detailed or stricter rules in the areas covered by the directive for television broadcasters under their jurisdiction. The situation was different where TV broadcasters established in another member state were concerned.

Joined cases C-34/95, C-35/95 AND C-36/95 Konsumentombudsman (KO) v De Agostini; Konsumentombudsman v TV Shop, July 9 1997 (ECJ)

BRICK COURT CHAMBERS, BRUSSELS

INTERNATIONAL PEOPLE

Fujitsu appoints PC veteran

Fujitsu, the Japanese electronics group, has appointed Winfried Hoffmann, the German personal computer industry entrepreneur, to take charge of its European PC operations.

Hoffmann, 53, will join the board of Fujitsu ICL as chief operating officer and will work with Tetsuo Urano of Fujitsu to help build on the group's success in the European PC market.

He has held a variety of senior management positions within the IT industry in Europe. Between 1985 and 1989 he ran Commodore Computer's European operations and before that was chairman of Burroughs/Unisys in Germany and Austria.

He left Commodore in 1989 to set up the ASI company, a PC assembler which was acquired by ICL in June 1995.

"I sold to ICL because we were too big to fail and too small to be great," he said yesterday.

Since he sold the business he has continued to build Fujitsu ICL's PC business in Germany – doubling sales in the past year.

In his new job he will succeed David Mills who is leaving the group after 20 years, mostly spent with ICL, the UK systems and computer services group majority owned by Fujitsu.

Mills, who became chief executive of Fujitsu ICL when the ICL's "volume" PC business was demerged and folded into the PC operations of its parent a year ago, has resigned to take up another appointment within the industry.

Under his stewardship Fujitsu ICL has become one of Europe's fastest growing PC vendors.

Sales last year grew by 110 per cent lifting Fujitsu ICL's European market share to 3.8 per cent from 1.9 per cent.

Sales of its products in the German and UK consumer and retail markets in particular contributed to the growth. Overall Fujitsu, which has a strong position in the Japanese PC market, sold more than 2.8m PCs in its 1996 financial year, and has grown its global PC business by 78 per cent.

Hoffmann, who plans to spend about two thirds of his time at Fujitsu ICL's Bracknell headquarters, said his task will be to build upon this success across Europe.

Paul Taylor, London

Cramer swiftly promoted by CNN

Chris Cramer, former head of television news at the BBC, has been promoted within 15 months of moving to Ted Turner's CNN network in Atlanta.

Cramer has become senior vice-president and managing editor of CNN International where he will be in charge on a day-to-day basis of what by September will become four distinct international CNN services.

Tom Johnson, chairman of the CNN News Group, said that in Cramer CNN International "is extremely fortunate to have one of the world's true hard news journalists at its helm, one who is dedicated to objective and independent journalism".

Cramer also leads the regionalisation of CNN International which has already led to the introduction of regional focused news and features.

The regionalisation is about to be taken one stage further. In September, for example, a new daily breakfast show for Europe will be broadcast from the London bureau.

In future there will be four distinct international networks, Europe, Asia, Latin America and an 'international' version of CNN to be broadcast back to the US.

The services will have programmes in common but new computer technology will enable editors to "mix and match" and show different items at more appropriate times of the day on the various regional services.

"I am very pleased. As the American say, we go forward," said Cramer, who is enjoying his stint in Atlanta after 25 years in the BBC.

Raymond Snoddy, London

More responsibilities for Stringer

Howard Stringer, president of Sony Corporation of America, has been given additional responsibilities as chairman of the company's Canadian division.

The television industry veteran who joined Sony in May will replace Kenji Tamiya, who was appointed chairman of Aiwa in June.

Stringer will support Sony of Canada president Hirohito Sakai in enhancing inventory and distribution systems. After operating in Canada as a joint venture company with distributor Gendis, Sony two years ago established a wholly-owned subsidiary to merchandise its products.

By 2000 the company aims to increase sales in Canada by 50 per cent, largely through the introduction of new products such as its digital video disk player, personal computer and digital stills camera.

As president of Sony's US operations, Stringer has been co-ordinating the group's efforts in the rapidly growing areas of communications and digital distribution.

A native of Wales, Stringer has worked in the television industry for more than three decades. Prior to joining Sony, he was chairman and chief operating officer of TELE-TV for Bell Atlantic, NYNEX and Pacific Telesis Group.

Stringer worked at CBS network for 30 years, serving as president of the broadcast group from 1988 to 1995.

Sony of Canada has branches, distribution centres and a chain of 81 wholly-owned retail outlets across the country.

Scott Morrison, Vancouver

ON THE MOVE

■ Horst Koehler, president of the German savings bank association Deutsche Sparkassen und Giroverband, has been appointed chairman of the supervisory board at GIESECKE & DEVRIENT. He succeeds Michael Endres who is departing from the board.

■ Richard Frank, managing director of the World Bank and chairman of its private sector development group, has joined DARBY OVERSEAS INVESTMENTS, the specialist emerging markets investment firm, as managing partner.

■ Dutch temporary employment and services group RANDSTAD HOLDING said that Hans Zwarts will be appointed as its chief executive officer in next year's general meeting. He will succeed Randstad founder Frits Goldschmeding.

■ LTX CORPORATION, a supplier of semiconductor test equipment, has announced that John Arcari, chief financial officer and treasurer,is resigning from LTX, effective August 1. Glenn Meloni, controller, will assume Arcari's responsibilities on an interim basis. Meloni joined LTX in 1979 and was appointed controller in 1987.

■ GEMPLUS, the producer of plastic and smart cards has appointed Dominique Trempont as president of Gemplus Americas with direct operating responsibility for sales, marketing, software engineering and manufacturing in North and South America. Gemplus Americas' headquarters will be in Silicon Valley. Trempont will also be responsible, at corporate level, for mergers and acquisitions and the development of strategic alliances for the Americas.

■ GROUPE BULL, the international IT group has appointed Jean Krief as vice-president, financial systems, to lead the company's drive into the electronic banking market. Krief will set up Bull's International Business Development unit in London which will complement Bull UK and Ireland's existing operation in the finance market.

■ MANUGISTICS UK has appointed Laurie Kirby as director professional services for Northern Europe. Manugistics UK is a subsidiary of Manugistics, the provider of software and services for supply chain management.

■ MICROGRAFX, a global leader in graphics software, has announced that Russ Hogg, former president of MasterCard International, has been elected to the company's board of directors and will serve as chairman.

■ Christopher Clarke who has been co-leading A T Kearney's utility practice, is to become managing director, South East Asia, based in Singapore and responsible for A T Kearney's growing practice in Thailand, Malaysia, Indonesia and Singapore.

■ LEHMAN BROTHERS have announced the appointment of Klaus Baader as senior international economist responsible for Germany. He will be based in London. Baader joins from Deutsche Morgan Grenfell.

■ Giulio Codacci-Pisanelli has been appointed executive director of SUMITOMO FINANCE INTERNATIONAL as head of debt origination, covering Europe, the Middle East and Africa. He joins from Chase Manhattan Bank.

■ ARCO CHEMICAL has announced several executive appointments as part of a new business structure. Alan Kornfeld, vice-president, will assume worldwide management responsibility for Basic Chemicals. Lynton Stanton, vice-president, will head the worldwide Urethanes Business. He will continue as president of the company's European operations. Edward Dineen, vice-president, will be responsible for Performance Chemicals, Business Development and New Business R&D. Dan Mariano has been appointed vice-president, Supply Chain Management, a new segment that combines worldwide raw material supply, purchasing, logistics, and customer support.

■ DELTA AIR LINES has announced that Bill Crumbley has been named managing director – the Delta Shuttle. Crumbley will be responsible for the management of the Delta Shuttle business unit and its operations in New York, Boston and Washington, D.C. He replaces Hiram Cox who was promoted to corporate controller.

■ GOSS GRAPHIC SYSTEMS has appointed Rick Surkamer to the newly-created position of vice-president, global marketing, for the manufacturer of newspaper and commercial printing presses. Prior to this appointment, Surkamer was employed by the Tribune, Chicago, where he was most recently director, manufacturing and distribution.

■ HONG KONG based chief executive of Griffin Shipping (Asia), John Sunley, has been appointed managing director of JSE-listed GRIFFIN SHIPPING HOLDINGS.

■ THE BANK OF IRELAND has announced the appointment of Maurice Keane as group chief executive designate. Keane, currently deputy group chief executive, will succeed Pat Molloy who retires in January 1998. Molloy will remain a member of the Court and will also assume the chairmanship of Bristol & West.

■ Joel Kissin, managing director of Conran restaurants since the company was formed in 1991, has been appointed managing director of CONRAN RESTAURANTS' operations in New York. The company's first restaurant in America is due to open in 1998 at Bridgemarket, a development under and around the 59th Street Bridge in Manhattan. This will provide a platform for the expansion in due course of Conran Restaurants in the USA.

■ The JOHN RYAN GROUP, has appointed Stephen Jackson, to its executive board. Jackson, who will be based in Madrid, is chief financial officer for all the group's international operations.

■ INSTINET, the Reuters owned global agency broker, has appointed John Davies, 40, managing director Instinet UK and John Oddie, 43, as director of global IT strategy. Davies joins from Bear Stearns International and Oddie joins from Merrill Lynch.

International appointments

Please fax information on new appointments and retirements to +44 171 873 3926, marked for International People. Set fax to 'fine'.

CONTRACTS & TENDERS

Republic of Lebanon
Ministry of Agriculture
Council for Development and Reconstruction
Invitation for Bids

1- The Lebanese Government has received a loan from the IFAD (International Fund for Agricultural Development) for the Irrigation, Rehabilitation and Modernization Project (IRMP - 370 LB) in Lebanon. It is intended that parts of the proceeds of this loan will be applied to eligible payments for procurement of Laboratory Equipment.
2- The Ministry of Agriculture and the Council for Development and Reconstructioo (CDR), representing the Lebanese Government, now invite sealed bids from eligible local and international bidders for the supply of Laboratory Equipment.
3- Interested eligible suppliers may obtain further information and examine the bidding documents at the headquarters of: The Council for Development and Reconstruction - Tallet el Serail - Beirut Central District - Facsimile: (9611) 864494 - (9611) 649947 - Telephone: (9611) 643980/1/2/3 - Telex No: 42490 CDR LE - Beirut - Lebanon
4- Starting 15th July 1997 a complete set of bidding documents may be purchased upon payment of a nonrefundable fee of US $ 500 in the form of a banker's certified check in the name of the CDR.
5- Bids must be delivered to the CDR headquarters on or before 12:00 hrs local time on 1st September 1997.
6- Bids will be opened in a public session at 12 hrs local time on 1st September 1997 at the CDR headquarters.

LEGAL NOTICES

IN THE HIGH COURT OF IRELAND
Record No. 1997 No. 142 COS
IN THE MATTER OF
SCHOEPP VELOURS OF IRELAND LTD
(UNDER THE PROTECTION OF THE HIGH COURT OF IRELAND)
AND IN THE MATTER OF
THE COMPANIES ACTS 1963 TO 1990

TAKE NOTICE that on 11 July 1997 a petition pursuant to the Companies (Amendment) Act, 1990 was presented to the Central Office of the High Court by the *Directors of Schoepp Velours of Ireland* Limited having its registered office at Drinagh, County Wexford. The petition is directed to be heard at 11.00 am on 28 July 1997 at the Four Courts, Dublin 7 to the intent that the matter be taken up on that date or on such other date as the Court may fix. Any creditor or contributory of the company who wishes to support or oppose the making of an order on the petition may appear at the time of the hearing by himself or his counsel for that purpose and a copy of the Petition will be furnished to any creditor or contributory of the Company who *requires it by the undersigned* on payment of the regulated charge.

O'CONNOR WALSHE
SOLICITORS FOR THE PETITIONERS
MERCHANT'S HOUSE
27/30 MERCHANT'S QUAY
DUBLIN 8
IRELAND
(ref: MJW)

NOTE: Any person who intends to appear at the hearing of the petition must service or send by post to the petitioners or their solicitors, notice in writing of his intention to do so. The notice must state the name and address of the person, or of the firms, the name and address of the firm and must be signed by the person or firm or his or their solicitors (if any) and must be served, or if posted, must be sent by post in sufficient time to reach the above named solicitors or the petitioners not later than 4.00 pm on 25 July 1997.

TECHNOLOGY

Falling costs will allow fingerprint verification to be widely used, reports Geoff Nairn

The key to your identity

Some people have been waiting a very long time: immigrants queueing to enter New York at the turn of the century

Photograph: Corbis Bettmann

Information at your fingertips is not just a marketing phrase for the biometrics industry, which sees fingerprint verification as a key technology for protecting information in the digital age.

Biometrics is the science of using unique human characteristics, such as voice, fingerprint or retina patterns, to verify a person's identity. As any James Bond fan knows, the technology has been used to control access to buildings. But access control is a niche market and the biometrics industry sees bigger opportunities in internet commerce, banking transactions and data security.

"Access control is not a big enough market to sustain our company," says Dennis Hollingshead, president and chief executive of Mytec Technologies, a Canadian security company that plans to launch a biometric product later this year. The system uses a small optical scanner to digitise a person's fingerprint and generate a unique digital "key" that can scramble personal data stored on smartcards, Pins to perform financial transactions and computer passwords. The data can be unscrambled only by the person placing his or her finger on the scanner.

Mytec claims its system is suited to electronic commerce as it avoids the practical problems involved in other encryption schemes. "The key is the weakest point in all encryption schemes as it has to be stored somewhere," says Hollingshead. "But with biometric encryption the key is your finger."

Fingerprint verification is not the only biometric technology but it is the most developed and is well suited to mass-market applications because of the tumbling cost of fingerprint readers. "Fingerprint technology is today both accurate and cheap," says Ricardo Arroyo, biometrics project manager at Unisys's Spanish subsidiary. The company is supplying the southern Spanish region of Andalucia with a fingerprint verification system to cut social security fraud. More than 7m smartcards will have been issued and 633 fingerprint readers installed in benefit offices when the project finishes later this year.

SGS-Thomson's fingerprint sensing chip

The US General Accounting Office estimates benefit fraud cost US taxpayers more than $10bn (£6.25bn) a year and several countries are looking to follow Andalucia in using fingerprint readers and smartcards to cut down paperwork and fraud. Others are considering fingerprint verification to protect medical records, ID cards and driving licences.

Early fingerprint verification systems cost more than $1,000 and required accurate optics which could fail when faced with poor quality fingerprints. Advances in the software used to digitise fingerprints allow today's makers to build smaller, more reliable devices with less sophisticated optics and prices have thus dropped to less than $500.

"At that price the market starts to open up," says Mike Lynch, managing director of Cambridge Neurodynamics. The company, set up by Cambridge University researchers, has developed a $300 optical fingerprint reader and image analysis software that uses neural network technology. A US company, KeyTronic, sells a PC keyboard with built-in fingerprint reader and software for less than $500.

Prices could soon drop further thanks to new readers based on semiconductor technology. Researchers at European chipmaker SGS-Thomson have developed a chip with tiny capacitive sensors to capture the fingerprint by measuring the differences in electrical charge between the skin's fields and ridges.

Lucent Technologies, formerly the technology division of AT&T, recently spun off a company, Veridicom, to market a similar technology. Veridicom hopes to launch a system based on its postage stamp-sized capacitive sensor later this year at around $300, although that could drop significantly if the chip goes into volume production, the company claims.

Veridicom believes its sensor's small size and low cost make it ideal for use in products such as portable computers, cellular phones and electronic tags to identify property. Many banks and card companies would like to build fingerprint scanners into ATMs and POS terminals – eliminating the need for users to remember Pins or, worse, write them down.

TbilCreditBank, a bank in Georgia in the former Soviet Union, is considering using fingerprint verification to encourage high-spending Georgian shoppers to leave their cash at home and instead use stored-value smartcards – "electronic purses". The aim is to reduce high levels of theft from retail outlets. The bank has already started a trial of smartcards for low-value payments in petrol stations and convenience stores.

These cards, supplied by US company Biometric Tracking, require the holder to enter a Pin, but the bank is considering moving to a system based on fingerprint verification which would allow it to issue cards of much greater value – $10,000 or more. Only the person whose fingerprint is digitised on the smartcard could unlock its stored value by placing a finger on a reader connected to a POS terminal.

The latest capacitive readers reject photographs of fingerprints and fingers of somebody dead, thereby thwarting even the most determined card thieves. Barclays Bank is also interested in biometrics and is running pilot projects to evaluate different technologies. "From a technical point of view fingerprint verification is more advanced than other biometrics," says Bill Perry, who heads a biometrics project at Barclays.

The bank is primarily interested in protecting access to its buildings and computer networks, but is also exploring the potential of fingerprint verification for card transactions, as is Mastercard which this year conducted trials of fingerprint readers.

Fingerprinting is inevitably associated with criminals and the biometrics industry must convince a sceptical public that fingerprint verification cannot be misused. The technology is quite different from that used in police fingerprint recognition systems.

For verification, there is no need to store an accurate image of a fingerprint – it occupies too much memory and takes too long to process. Instead, the reader typically just looks for features, called minutiae, that make each fingerprint unique. The pattern of these minutiae is then turned into a digital "template" and it is these templates that are stored and compared. The industry argues that it is impossible to generate a fingerprint from the template.

Travellers arriving at New York's John F Kennedy airport know at first hand the benefits of biometrics in bypassing the notoriously long queues at immigration control, writes Geoff Nairn.

The Inspass system allows frequent, low-risk visitors to the US to speed through by simply placing their palm on a scanner, which compares the geometry of their hand with that stored on a card. If the biometrics match, the visitor can enter.

The Immigration and Naturalisation Service claims the process can take just 11 seconds. Inspass is also operational at Newark and Toronto airports.

Like other immigration authorities, INS is evaluating many biometrics technologies including fingerprints, face and voice recognition. Canada uses fingerprints at Vancouver airport but the INS plans to continue with hand geometry for Inspass.

"Fingerprint validation is too slow because of the time needed to position the finger correctly," says Thomas Andreotta, Inspass project manager.

Over 65,000 cards have been issued since 1993 and INS wants to extend Inspass to other airports and land borders. But there have been technical problems and poor management. "The slippage is unfortunately due to problems writing new mainframe software," says Andreotta.

Attempts to develop a universal biometric border pass are also progressing slowly. The US and five other countries have tentatively agreed to standardise a card format that can be read in all their systems, but travellers will have to enroll separately in each country.

Also, INS plans an advanced optical-storage card containing digital photograph, fingerprint and hand geometry data, that will not be compatible with the existing standard.

Mark of a thief: fingerprints on stolen cheques can be found using an environmentally friendly solvent

Forensic investigation goes green

A non-ozone depleting alternative to the traditional recipe for developing fingerprints on stolen cheques has been developed by 3M, the conglomerate best known for Scotch tape.

The stolen cheque is normally covered in a special powder dissolved in a solvent, heated in an oven, left to cool and then watched for fingerprints to emerge. The solvent has to be compatible with a broad range of materials, evaporate quickly and have low toxicity. Traditionally, CFC-113 has been the only solvent to fit the bill, but this contains chlorofluorocarbons which can damage the ozone layer.

The new solvent, 3M HFE-7100, contains the more environmentally acceptable hydrofluoroethers rather than CFCs. It has performed well in tests at the Home Office's Police Scientific Development Branch, and regular use of the chemical for forensic investigation is expected to begin next year.

Andrew Baxter

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

½ hour period ending	Provisional Prices for Trading on 18.07.97: Pool purchase price £/MWh	Final Prices for Trading on 17.07.97: Pool purchase price £/MWh	Pool selling price £/MWh	TB use of system price £/MWh
0030	10.13	13.90	14.27	0.86
0100	10.11	13.90	14.27	0.86
0130	10.11	13.90	14.27	0.86
0200	10.11	13.90	14.27	0.86
0230	10.11	13.90	14.27	0.86
0300	10.11	13.90	14.27	0.86
0330	10.11	13.90	14.27	0.86
0400	10.11	13.90	14.27	0.86
0430	10.11	14.33	14.70	0.86
0500	10.11	14.33	14.70	0.86
0530	10.03	10.11	10.11	0.00
0600	9.90	10.11	10.11	0.00
0630	10.01	10.03	10.03	0.00
0700	10.17	11.81	11.81	0.00
0730	15.78	21.72	22.09	0.86
0800	16.78	21.74	22.11	0.86
0830	17.30	21.77	22.15	0.86
0900	18.91	21.85	22.28	0.86
0930	19.10	21.98	22.43	0.86
1000	19.27	22.08	22.56	0.86
1030	20.20	22.15	22.64	0.86
1100	20.43	22.20	22.71	0.86
1130	21.01	22.33	22.88	0.86
1200	26.32	22.45	23.03	0.86
1230	28.16	22.38	22.94	0.86
1300	20.46	22.21	22.72	0.86
1330	19.10	22.01	22.46	0.86
1400	18.91	21.94	22.38	0.86
1430	18.74	21.89	22.32	0.86
1500	17.41	21.87	22.29	0.86
1530	18.68	21.89	22.32	0.86
1600	18.78	22.06	22.54	0.86
1630	19.08	22.26	22.79	0.86
1700	18.17	23.65	24.38	0.86
1730	22.33	23.67	24.16	0.86
1800	22.09	23.43	23.84	0.86
1830	21.84	23.30	23.68	0.86
1900	21.82	18.63	19.00	0.86
1930	17.16	18.63	19.00	0.86
2000	15.70	18.03	18.40	0.86
2030	15.78	18.03	18.40	0.86
2100	11.98	18.03	18.40	0.86
2130	18.86	18.03	18.40	0.86
2200	21.20	21.99	22.36	0.86
2230	26.56	21.99	22.36	0.86
2300	20.39	21.99	22.36	0.86
2330	14.81	18.03	18.40	0.86
2400	15.78	14.32	14.69	0.86

هكذا من الاصل

ARTS

Romance of the Côte d'Azur

Jackie Wullschlager visits an exhibition which examines the ebb and flow of the seaside

'Côte d'Azur; Inventing the French Riviera' by Mary Blume, Thames and Hudson

Seaside fantasies: 'Aircraft competitions attracted visitors and provided thrills' in Monte Carlo

"Do you like it here?" Nicole and Dick Driver, on vacation on the Côte d'Azur, are asked in *Tender is the Night*. "They have to, they invented it," a friend replies.

"Vacances à la Mer", the new Paris summer exhibition, tells the story of the invention of the seaside, and is a gloriously French construct: an analysis of hedonism and the pursuit of the chic which brings the pleasures of the mind to bear on the pleasures of the body. For where else but within the colourful postmodern tubes of the Pompidou Centre would you find a room devoted to the social significance of the stripe, from blazer to deckchair? And where but the French Riviera would a grand hotel, the Carlton at Cannes, boast twin cupolas modelled on the breasts of a famous *belle epoque* courtesan?

A recent survey of favourite places for sex found that French women's overwhelming first choice was the beach (the bedroom came second). But our idea of the sea as life-enhancing, healthy and fun is comparatively modern. In 1847, Flaubert wrote savagely of the *quantite* of "cripples, the one-armed, the blind, hunchbacks and people with rickets and sores" who populated Brittany, and in 1850 Monte Carlo was the poorest state in Europe.

When entrepreneurs set out to entice people away from taking the waters at thermal baths – traditional spa resorts like Bath, Baden-Baden, Evian-les-Bains – they had to diffuse not only social prejudice like Flaubert's but a cultural heritage which associated the sea with fear, of drowning, shipwreck, monsters and "the anguish of infinity".

All those Romantic tales of undines and sea sprites, Dvořák's *Rusalka*, Debussy's Melisande, Andersen's *Little Mermaid*, speak to age-old *terrors of the sea*. Yet by the 1860s two practical developments – speculative property building and the spread *of railways – gave the seaside the allure delirante* of fantasy. Exotic "steam rockets" took travellers to villas modelled on chinese pagodas and Arab palaces. Hotels, casinos, piers, bathing huts were constructed and, from St Malo to Nice, colourful fronts were in place by the turn of the century.

This is delightfully recounted here in photographs, drawings and models, *while popular art illustrates* the changes in perception. In 1853, Honore Daumier's *le train de Plaisir*, one of his *croquis aquatique* cartoons, satirises a pair of Parisians in top hats, drenched and miserable, wading through a stormy sea. In 1890, the jaunty Toulouse-Lautrec-style posters of the Compagnies de Chemin de Fer were idealising straw-hatted men ogling women in *knickerbockers beneath* the pleasure domes of *La Reine des Plages*, St Malo.

Somerset Maugham called one glamorous French resort "a sunny place for shady people", but, especially in the north, etiquette was strict and as late as 1929 the mayor of Deauville banned nude shoulders.

And so to the stripe, the beach fashion invented in the 19th century as a *compromise between the health*-brigade, who insisted white be worn next to the skin, and the prudes, who were *shocked by its transparency*. By alternating opaque and sea-through lines, sexy silhouettes were supposed to look less inviting.

But the romance of the traditional sailor's outfit caught on and became symbols of health, fun and sportif style: a striped awning outside a shop *suggests* fresh produce within; a restaurant's striped canopy invites sophisticated diners.

A joy here is the photographs of Jacques-Henri Lartigue, great chronicler of the French seaside. His photo of young men in striped blazers at La Baule in 1913 brilliantly fixes an assured, aristocratic class escaping reality on the eve of its decline. *Flanking it, Coco* at Hendaye, 1934, shows a young woman looking out at the Atlantic, sitting with her back to us in a striped, strappy bathing suit beside a billowing empty striped tent: Lartigue's encapsulation of a 1930s beach as a place of menace, decadence and hollow ideals.

Twenty years on, Robert Doisneau's 1950s photographs of eager children fighting the waves are nostalgic recreations of a Europe recovering hope and confidence. Kodak cameras came in in 1888 – Lartigue had one from the age of six. The room devoted to a *century of family snapshots* proposes that the camera conditions and creates the myth of the seaside holiday as well as records it.

But this room is really about the simple pleasures of continuity. The donkey rides at Boulogne-sur-Mer in 1880; the postcard to the Parisian grandparents in 1900 ("the girls have been *sages et faciles*", "Catherine had her nap after lunch as usual"); the nanny and charges at the *plage fleurie* of the Normandy Hotel, Deauville, in 1930; "Polly", the mechanical swimming doll from the 1950s: here is history as an acceptance of the familiar and banal that make up so much of our lives.

The shifting tones of this exhibition, now tender and sentimental, now a deconstruction of symbols, now a brash parade of fashion, recalls something of the pleasure of watching the panorama of beach life from a deckchair on the sand, or the whimsical appeal of French seaside films.

The show suggests that "vacances à la mer" are a metaphor for the *futilités essentiels* of life. It ends with an absurdist image from our own times: a life-size, gruesome papier mache family *taking their first dip* in the shallows, and wincing as their feet dissolve.

At the Pompidou Centre, Paris, until September 27.

Cheltenham Festival / **Richard Fairman**

Out with the stuffiness

So much publicity is given to the problems of our leading opera companies that it is easy to overlook the fact that life can be hard elsewhere. Turn to the arts outside London and there is even less chance of attracting public attention.

The Cheltenham Festival is in its 53rd year, which makes it older by a whisker than either of its illustrious British counterparts at Edinburgh and Aldeburgh. A commitment to new music by its founding fathers has never been forgotten and under its present artistic director – Michael Berkeley, son of the composer Lennox Berkeley and a leading young composer himself – the stuffy atmosphere of s few years back *has* been gently blown away.

It cannot be easy work. The Arts Council grant for the 1997 festival was barely enough to pay for a handful of prima donna's top Cs at a certain establishment in the capital and sponsorship has been getting difficult as companies look to shift their spending to events of obvious public appeal.

So, it is no news at all to report that the festival has gone ahead as usual. The financial targets have been met, sponsorship has been raised, and audience figures are expected to equal last year's average of 70 per cent plus. For a festival which has a *premiere, or something* near it, in almost every programme, that is worth a modest headline of its own.

Friday's evening concert offered a big premiere by Vic Hoyland – rather bigger, in fact, that the festival had anticipated. A lot of extra instruments were needed and the BBC Symphony Orchestra, with its conductor Markus Stenz, was forced to forsake the platform for a larger space on the floor of the hall. The Town Hall at Cheltenham is not a good venue for a symphony orchestra at the best of times and this turned Brahms's Second Symphony into a congested, booming *noise for anybody seated at* ground level.

For the second half, I took refuge in the balcony, where Susan Bickley's extraordinarily inward singing of Mahler's *Lieder eines fahrenden Gesellen* came across with surprising immediacy. The Hoyland piece itself was also best heard from a distance. *A-vixen-A*, commissioned by the BBC, had enough of interest in it to hold the attention for the 30 minutes it lasted, but would be unlikely to survive closer scrutiny. Aside from Hoyland's fondness for muted trumpets, vibraphones and gongs, there was little to stop the score fading into an *unspecific, late 20th century* musical language.

By contrast, the Pittville Pump Room is an ideal place for morning recitals. For his token piece of relatively new music, the Polish pianist Piotr Anderszewski offered three of Lennox Berkeley's Six Preludes, Op.23 (no need to be bashful about this composer's underrated music, just because he was the father of the festival's artistic director). Bach's English Suite No.6 went part of the way towards showing what this pianist can do and an engrossing performance of Beethoven's *Diabelli Variations*, touched in every variation by his imaginative feel *for colour and atmosphere*, completed the picture admirably.

For Saturday evening, the festival dug deep into its pocket for a Bach programme with the Orchestra and Choir of the Age of Enlightenment, only to be rewarded with a miserable attendance. With Paul Nicholson as conductor, they missed period-instrument playing and singing well up to OAE's usual high standards.

Ruth Holton and Peter Harvey were the pleasing soprano and bass soloists in the two cantatas, BWV 47 and 32, and there was also the first performance of Betty Roe's short choral piece, *His Winding-Sheet*, part English traditional, part more adventurous – just five minutes, but it was at least one more premiere to add to Cheltenham's 1997 tally.

Cheltenham International Festival of Music continues until July 20.

Ballet / **Clement Crisp**

A Swan Lake to believe in

I am no lover of jesters or clowns. At the first suggestion of one of these capering horrors, I point myself *towards* an exit and run. But there is one exception. Despite the desperate vivacities of the Jester in the Kirov *Swan Lake* – he manages to appropriate the bunch of flowers which Siegfried is to give his prospective bride at the ball, thereby casting an intriguing light upon their relationship – the production is so splendid that, without the least queasiness, I enjoy every moment.

This Petersburg staging is now the only acceptable one in the world as a view of the real, the true, the traditional *Swan Lake* that was first given at the Mariinsky Theatre *a century ago. Its text is* more corrupt than it should be – the Royal Ballet has a much better version, ruined by production and idiot dramatics – but Kirov style is so beautifully attuned to the score and the emotional resonance of the narrative that we can believe in *Swan Lake* as a lyric tragedy.

The Kirov staging is serene. Little happens save the choreography, which is danced with a sublime assurance and sense of rightness. The first act is a dream-prelude in which courtiers dance with untroubled elegance. The lake-side is a vision of whitened movement in which Odette's sorrows touch our hearts. (On Friday, when *Swan Lake* entered the Kirov repertory at the Coliseum, Yuliana Lopatkina was superb in movement as the Swan Queen, rather more muted in feeling.)

In the ball-room, the panache of the national dances sets a tone of physical brilliance no other troupe can emulate: the Mazurka, danced by the four most beautiful couples in the world, is a marvel of aristocratic bravura. The last act is all sorrow and swan-feathers, and proves that even this balletic cliché is still potent when given by dancers whose traditions and style command belief in whatever they perform. The *design* by Igor Ivanov, costumes by Galina Solovyova, are the ones we have been used to. (The vile innovations *formerly proposed* by Oleg Vinogradov in staging and decor have, I trust, been left out for the dustmen.)

It is, as you may now have guessed, a wonderfully satisfying *Swan Lake*. (It was the only good news in a week that brought hints of two new stagings on the horizon.) Lopatkina, greatly admired in Russia, is an extraordinary artist. She was, I would venture, slightly nervous in the first lake scene. Tall, still young, she offered an Odette of beautiful line, fluent execution, creating exquisite shapes in the air. There was, though, some lack of feeling: her tragedy was one of resignation rather than despair or even nascent hope when Siegfried comes to her. (The *presence* in the audience of Inna Zubkovskaya and Natalya Makarova, both sublime Kirov Odettes, brought vivid memories of emotion nobly shown in this first scene.)

But in the ball-room, seizing upon the music's energies, Lopatkina was tremendously good. There was a spiritual and physical power to her dancing which spoke of great talent. And for the last lake-side scene, this same brightness of feeling, a heart-rending sense of despair, brought the role to a triumphant conclusion. Lopatkina is, clearly, an exceptional artist from whom we can expect great things, her style exquisite.

Her Siegfried was Igor Zelensky. We marvel at Zelensky's technical power – the big, almost lazy ease with which steps are set forth; but no less fine is his ability to establish emotion. *His art is one of simplicity*, as with his dancing where we wonder why so few other princes set out the steps with such magisterial clarity. His Siegfried is a dreamer, brooding. It suffices for him to establish this mood, and the ensuing drama becomes clear, credible. It is a compelling reading.

For the rest, the Kirov corps de ballet are a single glorious ballerina. The mazurka, with its superlative octet of Polish aristos, is a miracle of style.

As the Kirov Ballet season continues, I record with great sadness the death, in New York on Sunday, of Alexandra Danilova, a great ballerina who was a product of the Petersburg school and ballet company early this century.

Alexandra Dionysova Danilova was born in Peterhof, near St Petersburg, in 1902. While still very young she was orphaned, and became a pupil of Imperial Ballet school. By the time she was 18 she had graduated into the ballet troupe of what had become the State Theatre in Petrograd. In 1924, George Balanchine invited her to join a small concert group he was taking on a tour of Germany. In that same year he and Danilova and their companions were to join Diaghilev's Ballet Russe. Balan*chine became the company* choreographer; Danilova, grandly talented, became a principal of the troupe.

Her career, thereafter, was to make her one of the icons of the Ballet Russe, the epitome of the glamorous, gifted Russian ballerina. In the roles that Leonid Massine gave her – in *Boutique Fantasque, Beau Danube, Gaieté Parisienne* – she was like the finest champagne. Her career was largely spent in America, where she led the Ballets Russes de Monte Carlo for two decades. On her retirement, she was invited by Balanchine to work at his School of American Ballet, where she passed on her profound knowledge with exemplary skill and great style. She was married twice: *to Giovanni Massera*, and then to Kasimir Kokich.

Like every other balletgoer, I saw her and at once *fell* in love with her, with her charm, her joyous spirit, her classical grace in dance, and her grace in life.

INTERNATIONAL
ARTS GUIDE

■ CHELTENHAM

CONCERTS
Cheltenham Festival
Tel: 44-1242-227979
Bournemouth Symphony Orchestra: conducted by Paul Daniel in works by *Brahms*, Schwertsik and Mozart; at the Town Hall; Jul 18

■ DROTTNINGHOLM

OPERA
Drottningholms Slottsteater
Tel: 46-8-4570600
Euridice: by Jacopo Peri. Swedish premiere. Produced by Karl Dunér, and designed by Peder Freiij, with the *Drottningholm* Theatre Orchestra conducted by Jakob Lindberg; Jul 15, 16, 18

■ GRAZ

CONCERTS
Styriarte Festival
Tel: 43-316-825000
Handel's Fireworks: Jordi Savall conducts the Concert des Nations in the Festival's final concert: Purcell'e Fairy Queen Suite and Handel's Music for the Royal Fireworks; at the Stefaniensaal; Jul 20

■ LONDON

CONCERTS
BBC Proms, Royal Albert Hall
Tel: 44-171-589 8212
● Bernard Haitink conducts the BBC Symphony *Orchestra*, Chorus and the BBC Singers in Beethoven's Missa Solemnis; Jul 18
● Nicholas McGegan *conducts* selections from Mozart and Schubert'e one-act opera *Die Vershworenen*, performed by the *Orchestra of the Age of* Enlightenment. Soloists include soprano Hillevi Martinpelto; Jul 19
● World premiere of a new work by *Michael Gordon and* UK premiere of John Adams' *Scratchband* plus music by Steve Reich, Lou Harrison, Philip Glass *and Frank Zappa. Performed by* the Ensemble Modern and conducted by John Adams; Jul 20

DANCE
London Coliseum
Tel: 44-171-632 8300
● The Kirov Ballet: Symphony in *C/Giselle – Balanchine's* masterpiece is staged for the Kirov by John Taras of New York City Ballet, with casts to include *all of the company's leading* ballerinas; Jul 15, 16, 17
● The Kirov Ballet: The Sleeping Beauty – casts vary; Jul 18, 19

EXHIBITIONS
British Museum
Tel: 44-171-638 1555
Arts of Korea: overview of Korean art and archaeology ranging from the Neolithic period to the 19th century. Exhibits include e royal gold crown from the Silla kingdom, early Buddhist manuscripts, Koryŏ ceramics and 18th century landscapes. The exhibition is scheduled to run until 2000, when it will be replaced by e new, permanent Korean Gallery.

THEATRE
Shakespeare's Globe
Tel: 44-171-401 9919
Henry V: by Shakespeare: Mark Rylance stars as the young king in a production directed by Richard Olivier and designed by Jenny Tiramani; *in repertory*

■ LOS ANGELES

EXHIBITIONS
Museum of Contemporary Art
Tel: 1-213-626 6222
Jeff Wall: first retrospective *exhibition of the Canadian artist* whose photographic work draws on the narrative traditions of tableau painting; the exhibition *has been seen in Washington* and will travel to Japan; to Oct 5

■ NEW YORK

Lincoln Center Festival 97
Tel: 1-212-875-5030
CONCERTS
● *New York Philharmonic* at tha Avery Fisher Hall. Music director Masur's 70th birthday is to be celebrated in a programme of *popular favourites*. With Anne-Sophie Mutter and other guest artists to be announced; Jul 18
● New York Philharmonic at the Avery Fisher Hall. Kurt Masur directs a programme exploring countercurrents to Wagner, featuring the rarely performed Mendelssohn oratorio *Die erste Walpurgisnacht* and the Brahms Violin Concerto; Jul 19, 20

DANCE
● The Royal Ballet at the *Metropolitan Opera House: The Prince of the Pagodes*. Music by Benjamin Britten. NY premiere of this three-act ballet, *choreographed by Sir Kenneth* Macmillan. Darcey Bussell is Princess Rose; Jul 18, 19
● The Royal Ballet at the Metropolitan Opera House: *Cinderella*. Revival of Sir Frederick Ashton'a ballet, set to Prokofiev's score; Jul 20

THEATRE
Les Danaïdes: US premiere of Silviu Purcarete's reconstruction *of Aeschylus' 470 BC tetralogy*. Performed in French with English supertitles; Damrosch Park, 62nd St near Amsterdam Ave; to Jul 20

■ PARIS

DANCE
Opéra National de Paris, Palais Garnier Tel: 33-1-43439696
Sylvia: the Opera Ballet performs a new version, with fresh choreography by John Neumeier, to music by Delibes; Jul 15

OPERA
Opéra National de Paris, Opéra Bastille Tel: 33-1-44731300
Rigoletto: James Conlon conducts Jérôme Savary's staging of Verdi's opera, with sets by Michel Lebois; Jul 15

■ ROME

CONCERTS
Accademia Nazionale di Santa Cecilia Tel: 39-6-6880 1044
● European Union Baroque Orchestra: conducted by Roy Goodman in a programme of works by *Vivaldi*, *Telemann*, *Bach*, Quantz, Heinichen and Rameau; Jul 18
● Orchestra dell'Accademia *Nazionale di Santa Cecilia*: conducted by Myung-Whun Chung in works by Waber, Schubert and Beethoven; Jul 17

■ SALZBURG

THEATRE
Salzburg Festival
Tel: 43-662-844501
Jedermann: by Hugo von Hofmannsthal. Revival of Gernot Friedel's production, designed by Imre Vincze; al the Domplatz; Jul 20

■ SANTA FE

OPERA
Santa Fe Opera
Tel: 1-505-986 5900
La Traviata: Linda Brovsky directs this new production of Verdi's opera, set in tha Parisian demimonde. Christopher Larkin conducts; Jul 18

■ TANGLEWOOD

Tanglewood Festival
Tel: 1-617-931 2000
CONCERTS
Seiji Ozawa conducts the Boston Symphony Orchestra in works by Takemitsu, Mozart and Beethoven. With piano soloist Peter Serkin, baritone Mark Oswald, and the Tanglewood Festival Chorus conducted by John Oliver; at the Shed; Jul 18

OPERA
Les Mamelles de Tirésias: fully *staged production of Poulenc's* opera, directed by David Kneuss, preceded by two vocal chamber works by Ligeti; performed by the Tanglewood Music Center Vocal Fellows and Orchestra, conducted by Seiji Ozawa; at tha Theatre; Jul 17, 19

■ VERONA

OPERA
Arena di Verona
Tel: 39-45-800 5151
● Aida: by Verdi. Conducted by Nello Santi in a production originally staged by Gianfranco de Bosio, revived by Susy Attendoli; Jul 18
● Carmen: by Bizet. Conducted by David Gimenez, in a staging by Franco Zeffirelli. Agnes Baltsa and José Carreras recreate their famous double-act on Jul 19, 22 & 25

■ WASHINGTON

CONCERTS
Wolf Trap Tel: 1-703-255 1860
National Symphony Orchestra: conducted by Elizabeth Schulze in works by Tchaikovsky, Prokofiev and Rimsky-Korsakov. With violin soloist Sarah Chang; Jul 17

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Squawk Box

10.00
European Money Wheel

18.00
Financial Times Business Tonight

Martin Wolf

No more than a blip

Thailand's currency 'crisis' is an inevitable consequence of overheating but will quickly pass as strong economic fundamentals reassert themselves

"In the last year the [Thai] economy has slowed to a crawl, with growth falling to 6.7 per cent from 8.5 per cent a year earlier," declared the respected Economist Intelligence Unit on July 7. In almost any other region, this would appear the pace of an Olympic sprinter.

This background must be remembered when parallels are made between Thailand in 1997 and the Mexican crisis of 1994 and 1995. As then, the country has had a current account deficit of 8 per cent of gross domestic product. As then, it has had to abandon a peg against the US dollar. As then, an over-extended banking system is exposed to collapsing debt. As then, the regional economic superpower fears the consequences. As then, there is the risk of a contagious spread across the region.

Yet these parallels must not be exaggerated. Mexico has been struggling to become what Thailand already is – one of the world's most dynamic and successful economies. Back in 1970, Mexico's real income per head (at purchasing power parity) was some 2.4 times more than that of Thailand. By 1995, Thailand's real income per head was nearly 20 per cent higher than Mexico's.

In 1995, Mexico's gross domestic savings were 19 per cent of gross domestic product; Thailand's were 36 per cent. Mexico's debt service was 24.2 per cent of exports; Thailand's was 10.2 per cent. Private non-guaranteed debt was only 11 per cent of Mexico's total debt; it was 37 per cent of Thailand's. Mexico's exports of goods and services were 25 per cent of GDP; Thailand's were 42 per cent. Between 1990 and 1995, the volume of Mexico's exports grew at 14.7 per cent a year; Thailand's grew at 21.6 per cent.

Thailand could still finance one of the highest rates of investment in the world without a cent of net capital inflow. One year of import stagnation and one year of export growth at its rate in the first half of the 1990s would close the current account deficit.

It would be just as reasonable to compare the currency turmoil in east Asia today with the disintegration of the hard exchange rate mechanism of the European Monetary System between September 1992 and August 1993. In Europe, German unification made the ERM unworkable. In east Asia, it has been the gyrations of the dollar against the yen. Just as many now call the sterling devaluation of September 16 1992 "white Wednesday", so people are likely to see the decisions by the Thai and Philippine authorities to float their currencies as the beginning of recovery.

Yet even if this turmoil will seem, in retrospect, no more than a blip on the path of rapid east Asian economic growth, it is important to learn its lessons. To do so one must try to understand what has happened.

East Asian developing economies grew very rapidly during the recession in the high-income countries of the early 1990s. Between 1990 and 1995, for example, average annual growth was 12.8 per cent in China, 8.7 per cent in Malaysia, 8.4 per cent in Thailand, 8.3 per cent in Vietnam, 7.6 per cent in Indonesia and 7.2 per cent in South Korea.

Regional growth was impervious to developments in the high-income countries partly because of the dynamism of intra-regional trade. Since the mid-1980s, roughly half of the increase in the exports of east Asian economies went to one another.

A big stimulus to exports from east Asian developing countries was the decline in the US dollar against the Japanese yen. For Thailand, with an exchange rate pegged against the US dollar, this meant greater competitiveness in both the Japanese market and against Japanese production in third markets.

Very high economic growth makes an economy a honeypot for the lending bees. With a fixed exchange rate and eroding controls on capital flows, the authorities can halt neither domestic credit expansion nor the capital inflow. Thus, in its latest annual report, the Bank for International Settlements states that in the early 1990s Asia experienced "an extraordinary expansion in the ratio of bank credit to GDP that has no recent parallel in the industrial countries".

In Thailand, the ratio to GDP of bank credit to the private sector rose from 28 per cent in 1980 to 89 per cent in 1996, much of this coming in the first half of the 1990s. But Thais were not content with borrowing at home. Companies and individuals owe more than $70bn abroad, a sum equal to about half the country's economic output.

In Thailand, as elsewhere in east Asia, difficulties began with the export slowdown last year. For this there were three main explanations: an 18 per cent real appreciation of the baht against the yen between 1995 and 1996; the worldwide slowdown in exports of electronics; and, more important for Thailand, a deterioration in its competitiveness in traditional labour-intensive exports as real wages rose 45 per cent between 1990 and 1994.

Deteriorating export performance and slower economic growth made the current account deficit look unsustainable. As the bears rushed for the door, the Thai authorities raised interest rates to protect the exchange rate; by early 1997 real interest rates were above 8 per cent. The impact of high real interest rates on financial stability ultimately persuaded them to abandon the peg on July 2.

This pattern is quite familiar, as is the contagion that is now *spreading* through the region from the most vulnerable to the *slightly less vulnerable. For* Europe in 1992 and 1993, read east Asia in 1997. Thailand and the Philippines have conceded defeat. Malaysia is under attack. But, at worst, currencies will float freely for a while. In time the strong fundamentals of east Asian economies will reassert themselves.

What are the broader implications of this episode?

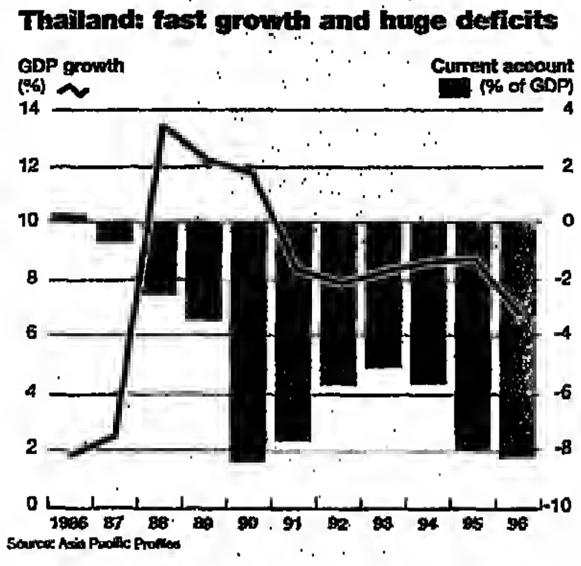
First, fixed exchange rates are particularly problematic for economies that are vulnerable to shifts in exchange rates between two or more significant currencies. Unless it can make a success of a currency board, a country should either float freely or fix against a currency basket with sensible weights for the currencies that matter to it and a big enough fluctuation margin to give some interest-rate autonomy.

Second, financial instability and market economies go together like a horse and carriage. Look at the number of banking crises that have afflicted high-income countries over the past two decades. But this is particularly true in fast-growing economies with mollycoddled banking systems, inexperienced regulators and sudden access to world financial markets. Merely deregulating such a financial system is not reform. It is a recipe for disaster.

Finally, those directly engaged in the financial crisis – borrowers and lenders, foreign and domestic, financial and non-financial – will learn only if they confront its consequences. The government's responsibility is not for individual borrowers or lenders, but for the financial system as a whole. Similarly, the job of international financial institutions is to minimise the costs of adjustment for the population at large.

Each episode of instability serves as a salutary warning that what is fashionable *today is quite likely to be* unfashionable again tomorrow. The more regularly people are *reminded of this*, the better.

Thailand: fast growth and huge deficits



Source: Asia Pacific Profiles

Bullies in the boardroom

British rhetoric about employees being vital assets is ringing hollow, writes John Plender

After years of downsizing, de-layering and re-engineering, a punch-drunk British workforce hardly looks ready for a return to confrontational industrial relations. Yet the strike at British Airways, complete with management pressure and inter-union rivalry, raises questions. Is this the first sign of a shift in power back to the workers as labour market conditions tighten? And have managers become complacent in their attitudes to the workforce?

The British Airways saga admittedly looks more of a throwback than a forward indicator. Most occupants of British boardrooms would reject charges of complacency or macho management. Yet there is evidence that business leaders are failing to carry employees with them as they continue to restructure. The standard rhetoric about "empowered" employees being vital corporate assets rings increasingly hollow.

Consider recent data from International Survey Research (ISR), a consultant whose employee opinion surveys cover 450 companies in 18 countries. Some findings in its latest survey, such as the free-fall in feelings of employment security throughout Europe, are predictable enough. Nor is it surprising that stakeholder-type economies such as Switzerland, Norway and the Netherlands tend to have the most contented workforces.

The UK's ignominious position – second only to Hungary at the bottom of the league for employee satisfaction – will no doubt be dismissed as British workers enjoying a moan. And the fact that UK management is judged less favourably by employees than managers elsewhere will prompt a similar response.

Yet when ISR's work is looked at over a period of years, it is less easily brushed aside. Take the progressive collapse in the morale of the UK workforce since 1990. The trend is odd because it defies the logic of the economic cycle. Recovery has brought deterioration, not improvement.

Also odd is the workforce's view of management. At the depths of the recession earlier in the decade, UK employees, though dissatisfied, were still taking a favourable view of their managers compared with the rest of Europe. Today, in spite of a marked increase in the rate of UK earnings growth, disillusionment appears total.

The clue comes with the ISR survey published at the end of 1995. This revealed that UK worker attitudes had suffered "the most precipitate decline" of any European country over the previous 10 years. Motivation and commitment to the company were lower even than in the strife-torn days of the mid-1970s.

The timing is significant because this was the first survey after the notorious British Gas annual general meeting at which the investment institutions sanctioned a much-increased pay package for the company's chief executive, Mr Cedric Brown – this when profits were down, customer service was deteriorating and employees were being shed in large numbers.

> The ISR survey revealed that UK worker attitudes had suffered 'the most precipitate decline' of any European country over the previous 10 years

The message is clear enough. Far from being a little local difficulty in the privatised utilities, the "fat cat" pay saga had a much wider demoralising impact which is still being felt.

It does not follow that British workers are about to take to the picket lines en masse. As long as insecurity is endemic, and the main legislative reforms of the past 18 years remain intact, the unions will not resume their former mantle. Nor does the government of Mr Tony Blair, a friend of BA chief executive Mr Bob Ayling, appear keen to take an active role in the dispute at the airline.

The more practical conclusion is that business does have a problem of legitimacy. There is much talk about a new psychological contract, whereby companies tell employees they can no longer offer security but will offer training in lieu to enhance employability.

There is also a view that employee satisfaction is a key performance indicator. Yet surveys show that workers feel diminishing loyalty.

In effect, a contract which views the employee as both an asset and a cost has an innate tension. If it operates against the background of ever-widening pay differentials between shopfloor and board, or runs into the BA style of management, it may become untenable.

There is a growing recognition among economists that trust is a valuable commodity. At national level – as in the stakeholder economies mentioned earlier – it can enhance growth. When it exists between the various stakeholders in a business it reduces costs and enhances competitive advantages.

If British business wants to achieve the highest standards on a sustainable basis, it badly needs to absorb this lesson.

LETTERS TO THE EDITOR

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Bigger not better in financial regulation

From Mr Miguel N. Arrollo.

Sir, Henry Kaufman's article "A safe and sound system" (July 7) was excellent. However, I disagree with its main conclusions. Yes, globalisation of financial markets has come, hand in hand, with securitisation, increase of derivatives, and other factors which, apparently, add up to the inner instability of finance.

But is this sufficient to explain the most serious incidents of instability in the recent years? Not mentioned was an additional cause of instability of the markets: the flood of national debt in recent years, which in the EU amounts to more than 70 per cent of gross domestic product.

Another important factor – the huge fluctuation of world money supply – is mentioned, but apparently no one is responsible for it. Now we are living in a period of very cheap money, whose effects are leveraged by a period of optimism and low money demand, without much fundamentals, as you say in your leader "An emerging bubble" (July 10). My opinion is that some central banks should have reacted some time ago to get a soft landing. But central banks seem to watch only consumer and other flow-prices indices, and neglect other clues, like asset prices. The recent experience of the speculative bubble and subsequent crash in Japan (by the way, a country with highly regulated finance) should have been an example, hnt it was not.

Taking this into account, I believe that it is quite hazardous to propose that governments and central banks that have not been able to keep their own finance house in order should be empowered to supervise financial stability at an international level. I do not understand why so many people believe that institutions which do not work at a national level will work if their power is transfered to an international one.

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Question marks that hang over euro

From Mr Richard A. Werner.

Sir, Professor Paul De Grauwe rightly argues ("The credibility deficit", July 11) that fears about weakness of the euro should not be based on an arbitrary 3 per cent deficit hurdle. He correctly points out that other factors determine exchange rates. Indeed, the exchange rate is a function of economic performance and monetary policy. His conclusion however, that "one can be confident that the euro will not lose its purchasing power faster than the D-mark", does not follow. Certainly not from the chart he musters in support of his argument: according to his figures, the D-mark appreciated by about 120 per cent from 1970 to 1996, while the majority of European currencies depreciated by double digits.

We are reminded of two things:

- Since the auro will prevent any further appreciation of the D-mark against European currencies, which would likely happen otherwise, it can only be weaker than a future D-mark would be.
- The chart shows which currency the markets have already chosen as their favourite European currency: the D-mark. The prize for successful PR goes to Brussels for selling to the European public as the introduction of a European currency what amounts to the *abolition* of the *de facto* European currency.

Any arguments in favour of the euro are steeped in contradictions. If the Bundesbank's policies can be replicated easily by other central banks, why have they not done so in the past? Why have they instead been forced to peg theirs to the Bundesbank? Why not, then, stick to the D-Mark? Or is the euro perhaps about diluting the influence of German monetary policy? If so, then how can the euro be as strong as the D-mark?

Thus, if tha euro is introduced for economic reasons, it does not make sense. And if it is introduced for political reasons, then the economics is worrying. And, indeed, the politics as well – why hand an unprecedented degree of centralised control over the welfare of the entire European region to a small number of unelected people? Where are the checks and balances? Currently, countries at least can opt out if they don't want to follow the Bundesbank policies.

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The middle misses out

From Mr Kenneth Armitage.

Sir, Lucy Kellaway ("Smile, visit the bookshop and learn how to be cool", July 14) suggests that, "If work structures really were flat and if employees really were organised in teams", then companies might work more closely together. The real point is, surely, that if flatter management structures make companies more egalitarian then it naturally follows that flatter pay structures should be the norm.

In reality, the current system appears designed to reward only the upper echelons and, usually, at the expense of middle management.

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EU has conceded moral ground on jurisdiction over Boeing

From Dr Jörg Schimmelpfennig.

Sir, The European Commission, in flatly rejecting Boeing's proposal of an independent investigation into state aid given to aircraft manufacturers ("Brussels sbuns Boeing plea for aid audit", July 11), has finally conceded any moral ground for extending its jurisdiction beyond the EU by trying to reject the Boeing/McDonnell Douglas merger. It never had an economic case either.

While European aircraft industries – via Airbus and the Eurofighter – had begun to consolidate long ago, the US is only following now. The reason is easy to see. Due to its large development - i.e. fixed - costs, any domestic market for passenger aircraft is a natural monopoly. One competitor may survive, while two cannot. As a consequence, either they merge or at least one of them will, sooner or later, have to be bailed out by the government. Anyway, it would be an economic waste. Similarly, it is highly unlikely that even a global market could support more than two suppliers, making it a natural duopoly.

In theory, there might be an anti-trust case to answer. But, as especially the UK experience shows, tha costs of managing artificial markets such as those created in the National Health Service or the privatised rail industry quite often outweighs the welfare loss that would arise from a monopoly.

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FINANCIAL TIMES

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Global risks in banking

Central bankers around the world are becoming nervous and their concerns are not confined to the current financial turmoil in Asia. The recent annual report from the Bank for International Settlements (BIS), the central bankers' bank, worries that the frothiness of markets could have systemic consequences. The state of the international payments and settlements systems is a continuing focus of BIS concern.

These remarks came after Mr Alan Greenspan's comments about irrational exuberance in markets. And they echoed earlier strictures from Mr Gerald Corrigan, a former head of the Federal Reserve Bank of New York, who warned that the growing complexity and integration of financial flows would make it much harder to manage shocks such as the 1987 stock market crash.

Now comes a report from the Group of Thirty, a top financial think tank, which explores the scope for limiting systemic risk in a world where the larger financial institutions and markets have outgrown national accounting, legal and supervisory arrangements. Improvised crisis management, it argues, will become more difficult against that background.

Amid all this concern, practitioners appear relatively confident. A survey in the G30 report shows that while leading global institutions put the likelihood of a serious disruption of the international financial system at one in five over the next five years, they see no threat to their own survival or that of their counterparties. Any shock is not expected to spread far beyond the point of impact.

Yet this looks complacent. Few institutions in the survey could assess risk on a global basis at the push of a button. A large minority did not stress-test risk management systems adequately. All worry about the consequences of a settlement system becoming fouled up.

The G30's recommendations for agreed global rules for better risk management command respect. Inevitably there will be difficulties: in countries with several supervisory bodies it may be difficult to agree on a single national co-ordinator to oversee global institutions.

A more fundamental point is that if the potency of supervision is heavily eroded in today's complex global markets, a much bigger cushion of capital is needed than practitioners are prepared to admit. The snag is that it is difficult to persuade banks or governments of the case before a crisis has made the need for more capital obvious. Since many global players are likely to be deemed too big to fail if threatened with insolvency, taxpayers of the world are heavily at risk.

Gene patents

European parliamentarians will today debate gene patenting. Tomorrow they vote on a directive that would harmonise gene patent rules across the European Union. A vote against could tempt some of Europe's fastest growing high-technology businesses to shift resources to the US where such patenting is taken for granted.

A vote in favour would anger environmentalists, church leaders and a significant number of EU citizens who fear that life itself is becoming a commodity. Yet this is the choice parliamentarians must make.

Europe's gene patent rules are a mess. The European Patent Office grants patents on genes, but EU member states' patent offices need not. The directive harmonises the rules in favour of allowing gene patents. Its opponents argue that patents are intended to protect inventions, not discoveries. Since genes exist anyway, they are discoveries. Indeed, if they belong to anyone, they belong to us all.

Rightly or wrongly, patent offices have long ignored this argument. Many drugs are isolated from natural sources and are as patentable as those synthesised in the lab. The point is that a patent can be granted only if there is an "inventive step" involved. For example, a gene *per se* cannot be patented; some aspect of its function or application has to be new knowledge. It is essential that patent offices observe this rule; without it, gene patenting would clearly be objectionable.

Opponents also say that patents stifle research by keeping knowledge proprietary. This is partly true. Only non-commercial research can continue on patented things. But wealthy pharmaceutical and biotech companies are increasingly contributing to academic research funding. Research with no commercial input is increasingly hard to find.

However, the effects of this are limited. Patenting makes public what could otherwise be kept secret. The courts could enforce a generous interpretation of what counts as commercial research so as to encourage academic work. And patents last 20 years, not forever.

On the other hand, gene research has clearly made the most progress in the US and UK where patenting genes is straightforward. Drugs companies in Germany and Switzerland, where environmentalists are strong, carry out most of their gene research abroad.

A vote against the directive would leave the current patchwork of patent rules in place. It would not resolve any of the moral issues. But it would make the US the first choice for private sector medical research, and Europe would be the loser.

Arm's length

The fuss over Lord Simon's holding of BP shares highlights the wider issues of relations between business people and government. Lord Simon, minister for trade and competitiveness, resigned as chairman of BP to take the job and put most of his assets into a blind trust. But outside the trust he retains £2m worth of shares in his old company. This has provoked Conservative claims of a conflict of interest.

Labour says these claims are sparked by jealousy that so many senior business people have agreed to help the government. They include Mr Martin Taylor of Barclays, Sir Peter Davis of Prudential, and Mr Chris Haskins of Northern Foods, all of whom are chairing advisory committees. More widely, the government is relying heavily on partnerships with business in areas from private financing for infrastructure to unemployment policy.

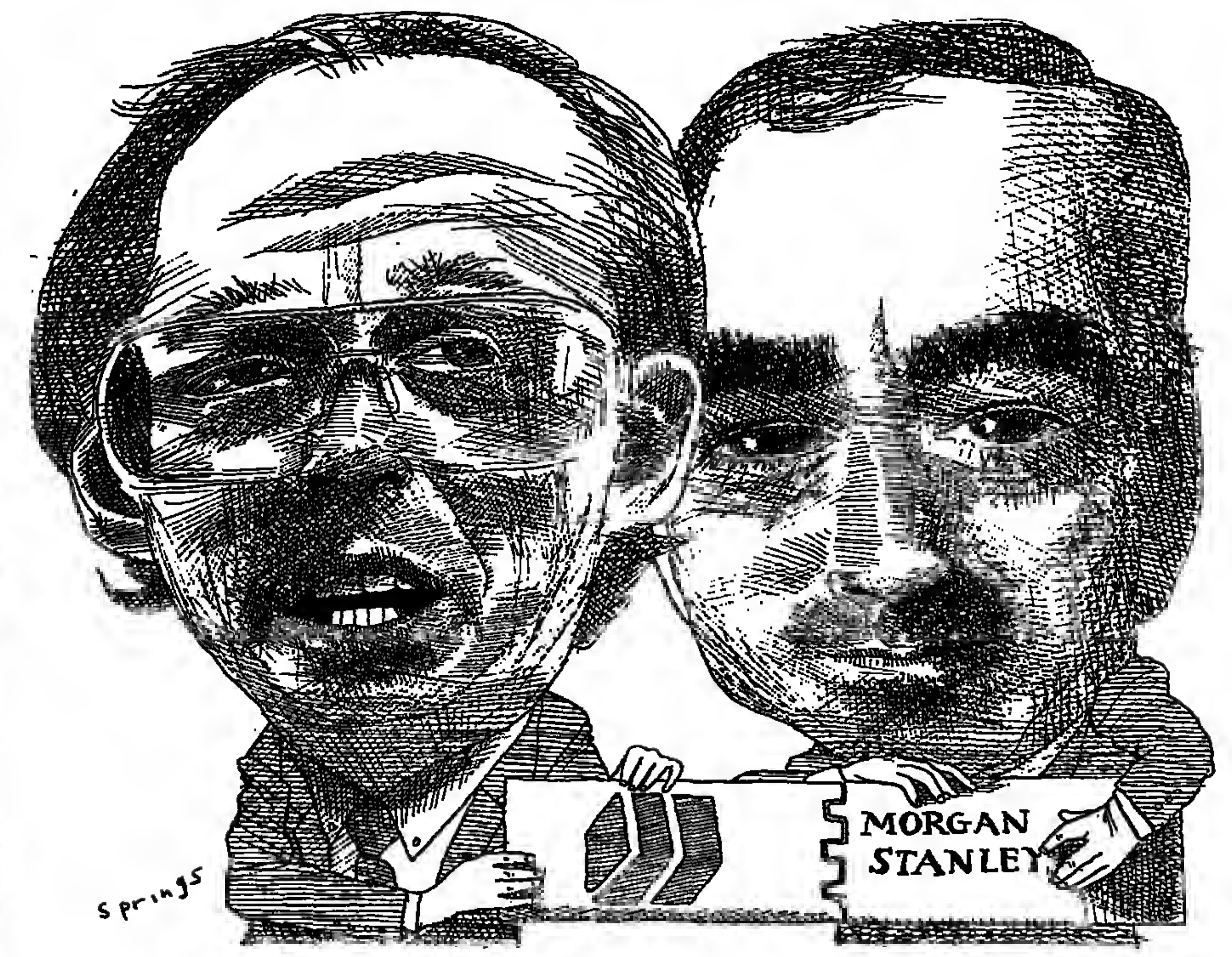
It is perfectly proper for a government to invite a business leader to switch to a political career. This requires careful handling of the potential conflicts, however, and Lord Simon might have done better to address the issue directly at an earlier stage. Though he has no involvement in energy policy, BP is so intimately entwined with the British economy that his continuing interest in BP shares inevitably exposes him to criticism. This controversy also highlights the fact that the skills required for success in business are very different from those needed in politics.

A different, equally proper, relationship is one where the government asks business people to advise it on specific issues. Both sides should be aware, however, of the potential dangers. Business people can usefully provide detailed advice on technical issues; or on how to achieve a clearly specified objective. What they cannot do, however much governments might wish it, is solve intractable political issues. Mr Taylor and Sir Peter Davis – venturing into the tricky areas of employment and welfare – must hope they do not find out the hard way that advising governments can be a thankless task.

The potential for mischief is greater in the partnerships between government and business that Labour espouses so energetically. It is in the public interest for the two sides to operate at arm's length. In some cases, such as private finance of infrastructure, the interests of taxpayers and business are opposed, since every extra pound spent on a project comes from the public purse. More generally, the country would be best served by maintaining clear separation between the private interests of shareholders and the public good. Sometimes these will run together; sometimes they will be distinct. It does no one any favours to pretend they are identical.

One-sided marriage

The merger of Morgan Stanley and Dean Witter adds more to the retail arm than to the investment bank, says **Tracy Corrigan**



Mr Philip Purcell, chairman of the newly merged Morgan Stanley, Dean Witter, Discover, may be getting a taste for standing ovations. That is certainly the reaction he got when he walked into the first of his regular meetings with Dean Witter's retail brokers following February's announcement of a merger with Morgan Stanley, the US investment bank.

The creation of a financial services powerhouse to rival Merrill Lynch by marrying an investment bank that produces securities with a brokerage that sells them seems to have pleased the sales force. "The brokers love it," says Mr Purcell, who as chairman of Dean Witter Discover, America's third largest brokerage, helped instigate one of the biggest financial couplings in history.

The reason for their enthusiasm is that the merger, finalised on May 31, has helped them do their jobs better, according to Mr John Mack, Morgan Stanley Dean Witter's chief operating officer. Morgan Stanley's investment banking business provides Dean Witter's brokers with more securities and better research on companies and markets, while its fund management arm manufactures additional investment products for them to sell.

The US retail business has been booming for some time. Last year, mutual funds took in a total of $324.9bn (£192bn) of net new cash – $100bn more than the previous record. Dean Witter's retail network had been successfully harvesting more than its share of that growing market.

But it had a handicap: most of the securities it distributed were originated elsewhere, by the investment banks, such as Morgan Stanley and Goldman Sachs, which dominate the underwriting market.

Dean Witter "had been doing well [before the merger]," according to Mr Raphael Soifer, financial services analyst at Brown Brother Harriman. But the increasing dominance of securities underwriting by a small number of firms posed a threat to "the future of [retail] firms without product," he says. "On a long-term basis, Dean Witter probably did need to do something."

Prior to the merger, Dean Witter underwrote some securities. But even in so-called "retail product" areas – typically investments earning a relatively high income such as utility stocks, real estate investment trusts and preferred stock – Dean Witter tended to have only a minor underwriting role.

Since the merger, according to Mr Purcell, the firm has started to arrange such deals thanks to Morgan Stanley's investment banking prowess. Morgan Stanley Dean Witter last month arranged a global $410m deal for FelCor, a real-estate investment trust. Not only did it wrest the mandate from Smith Barney, but it was able to sell more than 30 per cent of the deal through Dean Witter's retail distribution network.

More important still, Morgan Stanley is regularly involved in deals previously beyond Dean Witter's reach, such as foreign privatisations. Such securities can now be offered to Dean Witter retail clients. Furthermore, Dean Witter's 9,000 account executives or brokers can now plug into Morgan Stanley's vast network of research analysts: Mr Purcell admits they previously had "limited access to research". Dean Witter's analysts only covered the US market, leaving several vital industries, such as technology, completely ignored.

The stated aim of the Dean Witter Morgan Stanley merger was always to increase revenues, not to cut costs. In the event, fewer than 250 jobs, from a total of 40,000, were lost. There was virtually no overlap, says Mr Mack. "These are different businesses."

The retail business is the obvious target for earnings growth, says Ms Sallie Krawcheck, securities industry analyst at Sanford Bernstein. "They are taking broker productivity up with a broader range of products, they are retaining the best brokers, and they are getting in great new brokers," she says.

With 9,000 brokers, Dean Witter was already the fastest-growing US brokerage, according to Mr Purcell. Last year alone it added 500 new account executives. But as a result of the merger, he says, the pace of growth can be accelerated dramatically; he expects to add 750 account executives this year, largely by reducing staff turnover.

"It's now very difficult to recruit an account executive from Dean Witter," he says. Before the merger, rival firms "could offer more product or maybe better research" – as well as more money.

On the other hand, investment banking earnings, where industry revenues have been stagnant after a bumper year, will be virtually flat, says Ms Krawcheck. The question, then, is not what has Morgan Stanley done for Dean Witter, but what can Dean Witter do for Morgan Stanley?

Not surprisingly, Mr Purcell and Mr Mack claim the investment bankers are as enthusiastic as the brokers. "We were sure we'd get more underwritten equity product, but we have done double the sales in June that we did [a year ago] and it will be the same in July," says Mr Mack.

Some observers are less sure of the benefits to investment banking. "The part [of the merger story] that is convincing is the ability of the Dean Witter sales force to sell Morgan Stanley investment management products," says Mr Soifer. But in investment banking, he argues, the impact is "smaller and more spotty".

At a pinch, the merger may benefit Morgan Stanley's deal-pulling ability in certain markets such as preferred stock and municipal bonds. But, says Mr Soifer, in most markets Goldman Sachs – a leading US investment bank with no retail distribution network – has "no trouble distributing [securities] and neither did Morgan Stanley before the deal".

According to an investment banker at a rival firm, Morgan Stanley's investment bankers "barely acknowledge that [the merger] has happened". Morgan Stanley "prides itself on its tradition and pedigree", he says. Its bankers are not keen to be associated with a retail brokerage firm which they consider to be down-market. Significantly, the name used by the M&A advisory business is still Morgan Stanley.

Morgan Stanley's 250 private client brokers – who deal only with the very rich – are not pleased that 9,000 brokers can now say they are from Morgan Stanley Dean Witter. Rivals say there have been several departures of disgruntled brokers, but Morgan Stanley says only one senior person has left.

Nonetheless, there are signs that, in spite the fairly smooth integration and limited job losses, the merger may not be immune to the culture clashes that have plagued previous couplings of investment banks and brokers. Such conflict was most evident in the aborted union of Shearson and Lehman Brothers.

If Morgan Stanley's investment bankers are not euphoric, shareholders have reason to be cheered. Ms Krawcheck believes the merged company will see double-digit earnings growth. It will also have "a more stable earnings base than Merrill Lynch" because of its additional diversification through the Discover credit card business.

The Discover credit card franchise of 48m cardholders, built from scratch in 10 years, is the last part of the equation. Last week, Mr Purcell said he was considering launching a direct banking business under the Discover name. The firm's internet broking business recently changed its name to Discover Brokerage Direct after research showed the Discover brand has the strongest appeal to cost-conscious customers. There has also been talk of selling investment products under the Discover brand, though analysts point out that American Express, when it owned Shearson Lehman, never managed to exploit the Amex brand in this way.

The credit card business aside, the merger of Morgan Stanley and Dean Witter was fundamentally driven by the success of Merrill Lynch. Known as the "thundering herd", Merrill dominates both the underwriting and brokerage business, and its strong retail network has widely been seen as a vital factor in the development of its underwriting business in the past 20 years.

But, in spite of repeated efforts by the likes of Smith Barney, no other brokerage firm has managed to replicate Merrill's success. The question is whether Morgan Stanley Dean Witter has succeeded in pulling it off in only a few months. "They haven't done it; they've [just] set up the structure," argues Mr Soifer. "The cultural issues will take a while to work through", he says, referring to the potential clash between "star" investment bankers and retail brokers.

"One of the things that gets lost in history is how long it took Merrill Lynch to build its investment banking business," says Mr David Komansky, Merrill's chairman. Mr Komansky nevertheless makes it clear he does not underestimate the challenge from the newly-merged rival.

Morgan Stanley, Dean Witter, Discover – its unwieldy name spart – appears to have the clout, the scale, and certainly the ambition to challenge the thundering herd. Overtaking it may be another matter.

· OBSERVER ·

Chemical formula

■ ICI's founding fathers must be twitching in their graves at the sale of its industrial chemicals side. Sir Alfred Mond and Sir Harry McGowan – who created ICI in 1926 – never had much time for the new-fangled speciality chemicals which will now be the company's mainstay.

ICI's authorised history says Mond – later Lord Melchett – regarded speciality chemicals as "piddling and inconsiderable" compared with the real business of bulk production. The grand old men would probably regard selling to DuPont with equal misgivings; the main reason for forming ICI in the first place was to enable the UK chemicals industry to compete on equal terms with the venerable US company and with the then German behemoth IG Farben.

Of course, modern-day ICI boss Charles Miller Smith – bought in three years ago from Unilever and charged with ridding ICI of its stodgy management culture – is probably glad to be throwing off the yoke of history.

DuPont, for its part, is looking to more recent events: the last big deal the US creator of nylon, Lycra and Teflon did with ICI was in 1993, when it bought its nylon business. In DuPont's 1996 annual report, chief executive Jack Krol says that's what he calls a good deal.

Fire toll

■ It looks like low-level scapegoats may be lined up for the weekend fire at a luxury hotel in Pattaya, Thailand, in which 90 people died. Fire alarms and sprinkler systems didn't work, and fire exits had been locked to prevent guests slipping out without paying.

It's all too reminiscent of events in Thailand in 1993: 188 died in a toy factory fire because fire exits were locked, and 88 died in the collapse of a hotel which had been illegally extended. Recently, fire exits from blazing Bangkok shopping malls have been found to be locked, and owners have refused to allow firefighters inside in case they steal merchandise.

The weekend fire claimed 10 more victims: they died in a road accident as they rushed to help in the rescue effort when they heard that fire trucks with hydraulic ladders weren't being sent from Bangkok to fight the fire in the 17-storey hotel – it took over two hours for Bangkok bureaucrats to give permission.

The Nation newspaper, in a front page editorial, described the Pattaya tragedy as a demonstration that "the bubble did not just burst in the economy, but also in the rule of law". The manager of the hotel's coffee shop has been detained.

Left turn?

■ Will Bild-Zeitung, Europe's biggest-selling daily newspaper, end its long-standing support for Chancellor Helmut Kohl? Springer Verlag, the paper's owner, has announced that Bild political editor Kai Diekmann, who's close enough to Kohl to have co-written a book with him, is going off to head the group's unloved foreign news service, which isn't widely seen as a strong career move.

So loyal has the paper been to Kohl's centre-right government that it recently turned down an advertisement from a pressure group protesting against a single European currency. German media-watchers wonder whether Bild may emulate Rupert Murdoch's Sun, the top-selling UK tabloid, which switched its noisy loyalty to the centre-left in this year's general election.

Wrong number

■ Israel's former Labour government had promised employees of Israel's state-owned Bezeq telecoms outfit a slice of any public offering. So yesterday's private placement of 12.5 per cent of the company with Merrill Lynch came as a bit of a shock. Bad enough worrying about redundancies as new management takes over without losing a stake in the new private-sector future.

As irritated staff pulled the plug on services and repairs, Tzippi Livni, the official in charge of the government's privatisation agency, made a new pledge. The workers would reap rewards when the next tranche of shares – 11.5 per cent – was sold later this year and, yes, it would be a public offering. She promised. Bezeq workers are sending a delegation to Jerusalem. Just to make sure.

Tongue twister

■ It can't be much fun being interpeter for US Secretary of State Madeleine Albright, who's a bit of a linguist. Trying to interpret into Czech, her native language, must be a nightmare.

Observer feels sorry for Ivo Reznick, the State Department interpreter assigned to Allbright for yesterday's visit to her birthplace, Prague. No interpreter was needed in Albright's talks with Czech President Vaclav Havel, but during their joint press conference afterwards, she corrected Reznick sharply three times before he gave up and left the whole shooting match to Havel's Czech interpreter.

The Financial Times

100 years ago

Gold Dust In Alaska

For men with a stern devotion to duty, commend us to the correspondents of the "Daily Mail." One of them cables information from New York concerning the greatest boom of the century. Up Alaska way, on the Klondike gold diggings, wages are $15 a day, and "gold dust a mere drug in the market." We commend that correspondent. Most men would have slunk off quietly in search of the gold dust and left their editors in the lurch. He might have become a rich man while the miners were searching for solid blocks of the metal.

50 years ago

Re-Fuelling In The Air

On 31st May, Air Vice-Marshal Donald Bennett, chief executive of the British South American Airways Corporation, landed at London Airport following the first of a series of experiments in re-fuelling an aircraft in flight. His aeroplane, a converted Lancaster, had to be re-fuelled by a special tanker aircraft as it flew over the Azores on its non-stop 4,000 miles journey to Bermuda. The process was repeated on the return flight, a total of 3,400 gallons of petrol passing between the aircraft on the two trips.

FINANCIAL TIMES
Tuesday July 15 1997

Bank drops support for currency at level defended for two months

Kuala Lumpur lets ringgit fall

By James Kynge in Kuala Lumpur

Malaysia's ringgit yesterday became the latest south-east Asian currency to buckle under speculative attack after the country's central bank abandoned support for the currency at a level it has defended for the past two months.

The ringgit fell 1.8 per cent to a 16-month low of M$2.5500 against the US dollar after the central bank offered only token resistance to waves of selling in early trade, dealers aaid. The currency slipped below M$2.5250, the level the bank had defended since a speculative attack on the Thai baht in mid-May.

The assault on Asian currencies which has seen the Thai baht and Philippine peso devalued in the past two weeks continued yesterday as governments struggled to maintain currency values against the dollar in spite of weak exports growth and faltering demand at home.

The Thai central bank intervened to support the baht, saying it had fallen too far at Bt30 – its lowest level since its devaluation. It firmed to close at Bt29.90. The Philippine peso touched a four-year low hut recovered before closing at 29 to the dollar. The Indonesian rupiah slid to 2,470 to the dollar early yesterday before recovering to close at 2,450. Last week, Indonesia's central bank widened the rupiah's trading band to 12 per cent from 8 per cent, saving it billions in its fight to uphold the currency.

In Malaysia, treasury economists said it was unlikely the central bank had abandoned a trading band for the ringgit. This was reinforced by the fact that the central hank, Bank Negara, had pnt a floor under the ringgit's slide at M$2.5500. In late trading it rebounded slightly to about M$2.53.

Mr Anwar Ibrahim, Malaysia's acting prime minister and finance minister, said that, following the ringgit's depreciation, it was in a "reasonable range". He reiterated the government's opposition to speculators and said currency trade should reflect what he described as Malaysia's strong economic fundamentals.

Economists say Bank Negara had abandoned its support of the currency at M$2.5250 after spending up to US$2bn defending it, with little sign of deterring speculators. Currency observers say the weakening of other regional currencies over recent weeks has enhanced their export competitiveness at Malaysia's expense, leaving Kuala Lumpur little choice hut to let the ringgit weaken.

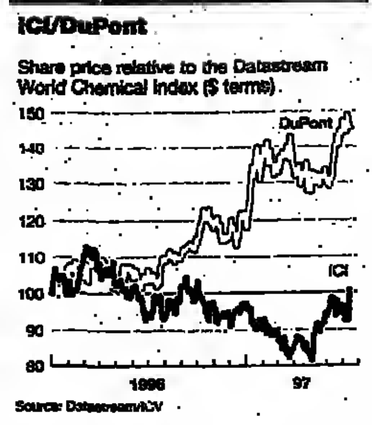
Ringgit allowed to fall, Page 4
Martin Wolf, Page 14

THE LEX COLUMN

Not DuPed

Has little ICI pulled a fast one on mighty DuPont? The $3bn (£1.8bn) disposal of Imperial Chemical Industries' polyester and titanium dioxide operations to the US giant raises the question. At 1.2 times historic sales, these businesses have fetched twice their expected price tag, sending ICI's shares up 9 per cent. At first sight, DuPont appears to bave overpaid hy nearly $1¼bn – material even for a group capitalised at $36bn. Yet its share price hardly budged yesterday.

FTSE Eurotrack 200: 2677.5 (+32.4)



But these businesses are worth more to DuPont than to ICI. The deal consolidates DuPont's leadership in titanium dioxide, giving it a foothold in Europe and a worldwide market share approaching 40 per cent. In polyester, the ICI operations fill gaps in DuPont's product range. The US group also expects to cut combined costs by $150m-$300m. After tax and on a price/earnings multiple of 10, those savings could be worth $900m-$1.8bn.

If ICI is selling so well and, yet, DuPont is not buying badly, then the fault must lie with the initial valnation of the disposal candidates. Clearly, the financial markets are hadly underestimating the prices industrial buyers are willing to pay for strategic assets – whether to boost their own market share, or merely to prevent them falling into the wrong hands. Since the industry's consolidation has a long way to go – ICI itself has £2bn of turnover left to dispose of – it looks as if poorly-rated basic chemicals businesses still have plenty of value to unlock.

BT/MCI

The British Telecommunications/MCI merger looks increasingly like a can of worms. The market is clearly expecting BT to extract better terms following MCI's profit warning. The British group also intends to press for two top MCI managers to resign. Maybe its US partner will meekly do what it is told, but things could easily get ugly.

For a start, there is no agreement how bad things really are. On the least threatening reading, MCI is merely stepping up "investment" to crack open the US local market – in which case, this could be merely paradise postponed. The more worrying interpretation is that MCI's prospects have been permanently damaged in both the local and the long-distance market. If so, BT will he under enormous presanre to renegotiate terms. If BT shareholders were, for example, to enjoy the same earnings per share next financial year as was expected before the profit warning, the value uf the offer would have to fall from $45 tu about $35 per MCI share.

Bnt would MCI accept such a severe adjustment? Though the merger agreement permits renegotiation in the event of adverse trading conditions, MCI might try to argue it did not apply because its problems are caused by inadequate regulation. It could even hit back by arguing that BT's position has deteriorated thanks to the rise in pension costs caused by the recent Budget. Lawyers would have a field day. But if the two companies even get as far as threatening litigation, the deal is probably dead.

Golden shares

Amid all its other troubles, British Telecommunications is unlikely to encounter much opposition tomorrow when it seeks shareholders' approval to abolish its golden share – something the government has yet to agree to. Of course, the chances of such a behemoth being taken over are remote. But suppose a bid did emerge: the last thing shareholders would want is the UK government having the power to block it in a flag-waving fit.

Nor should the government be keen on such mechanisms, whose main practical effect is to cushion management from the threat of takeover. This is not an academic point. As last year's knee-jerk government decision to prevent a Southern Company bid for National Power showed, the consequences can be very real. Of course, it is only in unusual circumstances like BT's that management teams themselves are likely to volunteer the removal of a neat protective device.

What is needed, therefore, is some institutional pressure. Why, big shareholders might usefully ask themselves, should they not group together and press the remainiog protected companies to lubby for the abolition of such an obvious anachronism? With 18 golden shares still remaining, the exercise would certainly be wortb the bother. At the very least, the government would be forced to consider whether it really wants these rights. And even if it concluded it did, there is something to be said for all concerned knowing where they really stand.

D-Mark

More than ever, financial markets believe they know Europe's future: since the Socialist election victory in France, the belief has hardened that monetary union will be hroadly drawn and loosely construed. Germany, unsurprisingly, is seen as the big loser. It has long been the benchmark fur monetary rectitude, but if future European policy will be as much Italian as German, there is little incentive to hold low-yielding German assets in the interim.

The sharp rally in Italian bonds, now yielding only 90 basis points more than German bunds, from over 300 a year ago, confirms the point. But the D-Mark has been the most conspicuous victim: despite supportive moves in long and short term interest rate differentials against the US, it has fallen to a near six-year low against the dollar. It may be that so long as inflation is dormant, and a weak D-Mark helps prop up growth, the Bundesbank will be indifferent to its value. But sustained D-Mark weakness is no certainty: if the dollar pushes through DM1.80, the Bundesbank might well feel the need to defend it through higher interest rates.

Even more plausibly, what if the audit of French public finances shows France missing the Maastricht criteria by a country mile, and doing nothing about it? This scenario would dramatically increase the risks of Emu being delayed, sending investors scurrying into the D-Mark for safety. Markets most vulnerable to a correction, such as Italy and France, should be treated with caution.

BT faces investors

Continued from Page 1

local telephone bnsiness would lose $800m rather than the planned $400m this year and more next. BT is looking for the resignations of two top MCI executives and a re-evalnation of company strategy.

Immediately following the AGM, Mr Robert Brace, the BT director in charge of international alliance, will fly to Washington to begin a close examination of MCI's strategy and its prohlems in hreaking into the lncrative US local telepbone market.

Mr Brace and Sir Peter Bonfield, BT chief executive, are understood to be taking personal charge of the review. They will be looking for ways in which MCI can gain share in the local telephone markets without necessarily investing an extra $400m a year.

Qnestions, meanwhile, are being raised abont BT's tactics and its role in the crisis. "They had better be careful about what they are doing to morale in this company," said *Mr Barry Sine, a telecoms analyst* at SBC Warburg in New York. "They should be rewarding these people for taking risks, not threatening tbem with tbe loss of their jobs."

Other US analysts qnestioned why BT had not realised sooner that MCI's attempts to break into the local market would lead to bigger losses, as it had seats on the company's board.

MCI refnsed to comment. However, one person close to the company said the BT directors on MCI's board "had a clear vantage point" of all the company's husinesses.

Institutional investors in the UK were chiefly concerned about management shortcomings.

The belief is growing, however, that the deal will go through. A fund manger said: "Our belief is tbat it wonld be hard for the BT hoard to go back on its original strategy to buy MCI. The only question that remains is whether and how BT can reduce its offer."

Malaysian group may list owner of 'tallest' buildings

By James Kynge in Kuala Lumpur

The company that owns Petronas Twin Towers, the mirror and chrome office blocks in Kuala Lumpur which are claimed by Malaysia as the world's tallest huildings, may come to the country's stock exchange later this year in an initial public offering.

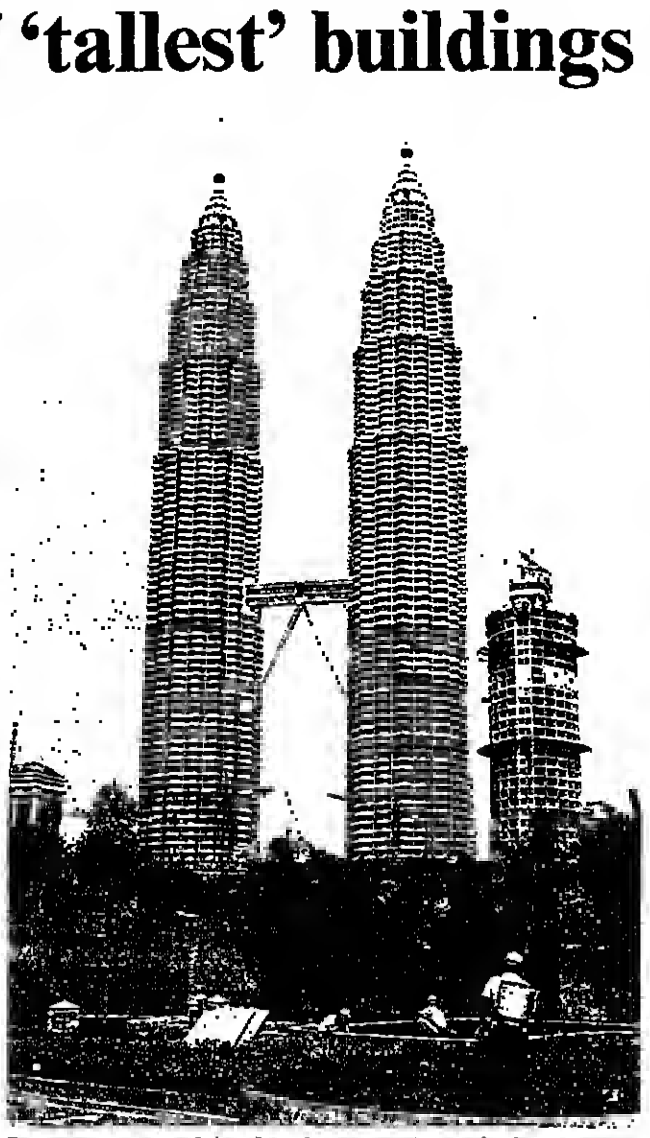
The buildings are 51 per cent owned by Petronas, the national oil company, which sees the IPO as a way to help the M$2bn ($800m) project pay for itself. The huildings were due to be completed late last year and, although sections are already being used, the structure is unlikely to be wholly opened until late this year.

Property analysts said delays in the project might have pushed up its costs. However, when the 88-storey towers open, they will rank as the most prestigious and most *expensive business address in* Malaysia.

At 451.9 metres high the towers are believed to surpass the Sears Tower in Chicago. Detractors say that as the spires on top of the Petronas towers are included in calculations, the aerials on top of the Sears Tower should also be counted, making it taller.

Mr Azizan Zainol Ahidin, chairman of KLCC Holdings, the Petronas subsidiary which owns the towers, said his company might be listed on the stock exchange's main board towards the end of the year. He added that it would not be listed under special guidelines for infrastructure companies – a method that allow concerns with no track record to raise equity finance.

The IPO, which has yet to receive approval from relevant authorities, will be lead-managed hy RHB-Sakura Merchant Bank, a local bank. The number of shares to be issued and the amount of funds to be raised bad not been decided, Mr Azizan said.



Petronas Towers, claimed as the world's tallest buildings

Malaysia's stock market is 20 per cent down on its highest level of the year. Initial puhlic offerings of other infrastructure projects, notably tbe Bakun dam, have been postponed because of concerns over fading investor support.

The announcement of the offering came as Petronas, which is not listed, issued results showing a 44.7 per cent rise in group pre-tax profits to M$12.39bn ($4.95bn) in the year to March 31. Group turnover rose 29.8 per cent to M$28.89bn. Net profit rose by 7.6 per cent to M$7.3hn.

Mr Mohamad Hassan Marican, chief executive and president, said: "One of the main contrihuting factors to the higher revenue generated by Petronas was the increase in the crude oil price."

Exports of crude oil, refined petroleum products, natural gas, liquefied natural gas and petrochemicals contrihuted 67.4 per cent of the turnover, Mr Hassan said.

FT WEATHER GUIDE

Europe today

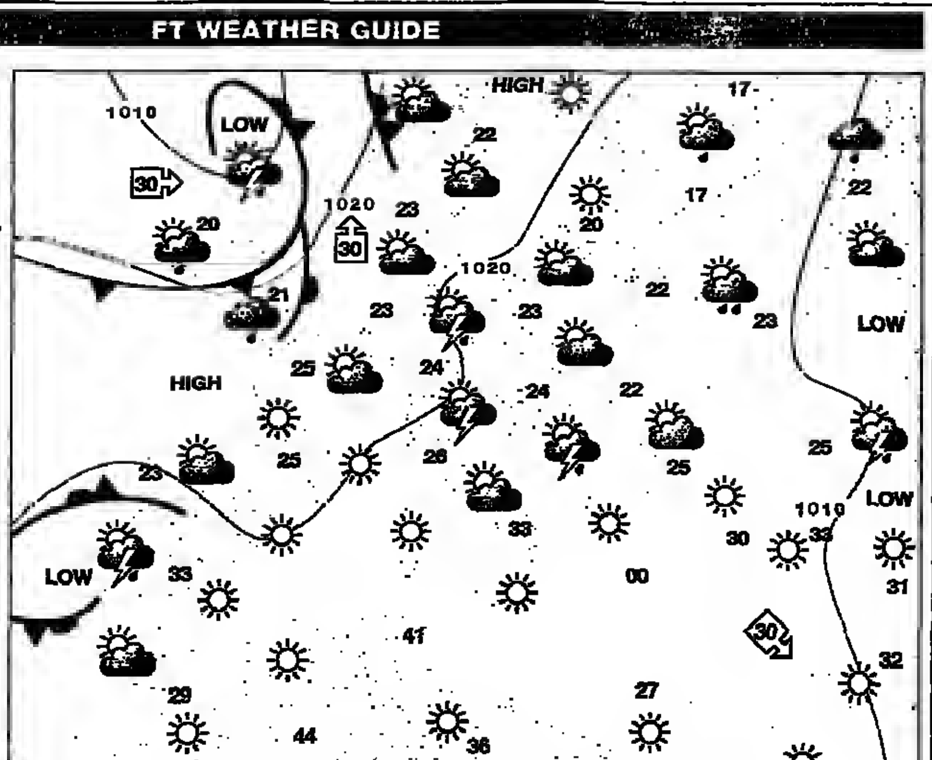
It will be sunny and warm across most of the Mediterranean. Only the northern regions of Italy and Turkey may have thunder showers. Thunder showers will develop across Portugal and parts of Spain. It will be particularly warm across the interior of Spain.

Most of France, the Benelux and southern Scandinavia will remain dry with sunny periods.

The UK will be mostly cloudy with outbreaks of rain or showers. There will be some thunder showers in central Europe and the former Yugoslavia.

Five-day forecast

Most of the continent will remain warm with scattered afternoon thunder showers. Italy will become unsettled with some thunder showers. Elsewhere across the Mediterranean, it will continue to be mostly sunny and warm. Later this week, a high pressure system will build across Ireland and will result in drier and sunnier conditions in the UK.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum Celsius	Beijing	fair 33	Caracas	fair 31	Faro	fair 23	Madrid	thund 34	Rangoon	rain 30
		Belfast	shower 20	Cardiff	drzzl 20	Frankfurt	thund 26	Majorca	sun 32	Reykjavik	cloudy 14
Abu Dhabi	sun 40	Belgrade	cloudy 25	Casablanca	fair 24	Geneva	fair 26	Malta	sun 32	Rio	fair 25
Accra	fair 28	Berlin	sun 24	Chicago	sun 32	Gibraltar	fair 26	Manchester	rain 20	Rome	sun 31
Algiers	fair 35	Bermuda	fair 30	Cologne	fair 24	Glasgow	rain 19	Manila	cloudy 34	S. Frsco	sun 22
Amsterdam	fair 22	Bogota	cloudy 19	Dakar	fair 30	Hamburg	fair 23	Melbourne	rain 12	Seoul	rain 30
Athens	sun 31	Bombay	shower 32	Dallas	fair 38	Helsinki	sun 22	Mexico City	cloudy 27	Singapore	cloudy 32
Atlanta	thund 33	Brussels	cloudy 23	Delhi	fair 36	Hong Kong	rain 31	Miami	fair 33	Stockholm	fair 23
B. Aires	fair 13	Budapest	fair 24	Dubai	sun 40	Honolulu	fair 31	Milan	fair 26	Strasbourg	shower 25
B.ham	shower 21	C.hagen	cloudy 21	Dublin	cloudy 20	Istanbul	thund 25	Montreal	thund 29	Sydney	fair 17
Bangkok	cloudy 36	Cairo	sun 32	Dubrovnik	thund 27	Jakarta	fair 32	Moscow	rain 18	Tangier	shower 26
Barcelona	sun 28	Cape Town	sun 22	Edinburgh	shower 20	Jersey	shower 19	Munich	thund 25	Tel Aviv	sun 31
						Karachi	sun 36	Nairobi	cloudy 23	Tokyo	fair 28
						Kuwait	sun 45	Naples	fair 29	Toronto	cloudy 30
						L. Angeles	sun 25	Nassau	fair 32	Vancouver	cloudy 20
						Las Palmas	sun 26	New York	cloudy 38	Venice	cloudy 26
						Lima	fair 24	Nice	sun 28	Vienna	cloudy 24
						Lisbon	thund 28	Nicosia	sun 33	Warsaw	cloudy 21
						London	shower 22	Oslo	cloudy 23	Washington	fair 35
						Lux.bourg	fair 23	Paris	fair 25	Wellington	cloudy 11
						Lyon	fair 27	Perth	sun 16	Winnipeg	cloudy 28
						Madeira	fair 23	Prague	fair 24	Zurich	thund 22

مكتبة من الاصل

FINANCIAL TIMES
COMPANIES & MARKETS
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Tuesday July 15 1997
Week 29

IN BRIEF

Stet to cut calls charges by 20%

Stet, the Italian telecoms carrier which will operate Retevisión, Spain's second operator, plans to break rival Telefónica's monopoly with aggressively priced services. Stet said its charges for domestic long-distance and international calls would be up to 20 per cent lower than those of Telefónica. Page 18

Spanish consortium wins gas bid
A consortium led by Gas Natural, the dominant gas distributor in Spain, has won an auction to buy the two gas companies owned by the Brazilian state of Rio de Janeiro for R$622m ($578m). The sale of Companhia Estadual de Gás (CEG) and Riogás is the first privatisation of state-owned gas companies in Brazil. Page 20

Internet alliance for Hewlett/AT&T
Hewlett-Packard and AT&T will collaborate in the development and marketing of technologies and services that make it easier for businesses to build electronic storefronts on the internet. The alliance reflects the rapidly growing trend toward transforming web sites into online storefronts where visitors can buy products. Page 20

Assi takes stake in Russian venture
AssiDomän, the Swedish pulp and paper group, is to take a controlling stake in Segezhabumprom, the Russian pulp and paper sack company it manages and partly owns through a joint venture with Daventree, a Cyprus-based investment group. Page 18

GEC-Alsthom unit in turbine deal
European Gas Turbines, a subsidiary of the Anglo-French GEC-Alsthom group, has signed a $60m contract to provide two quick-start 110MW gas turbine power units to MVM, the Hungarian state electricity company. Page 18

Moody's lowers Bank Austria rating
Moody's, the international ratings agency, downgraded Bank Austria's long-term credit rating, reflecting increasing doubts about the city of Vienna's support for the country's largest bank. The rating was cut from AAA to AA2, the second-highest ranking. Page 18

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Amoco	20	Montgomery	20
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BT	1	Motorola	18
Banco Inverlat	20	NationsBank	20
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Chief price changes yesterday

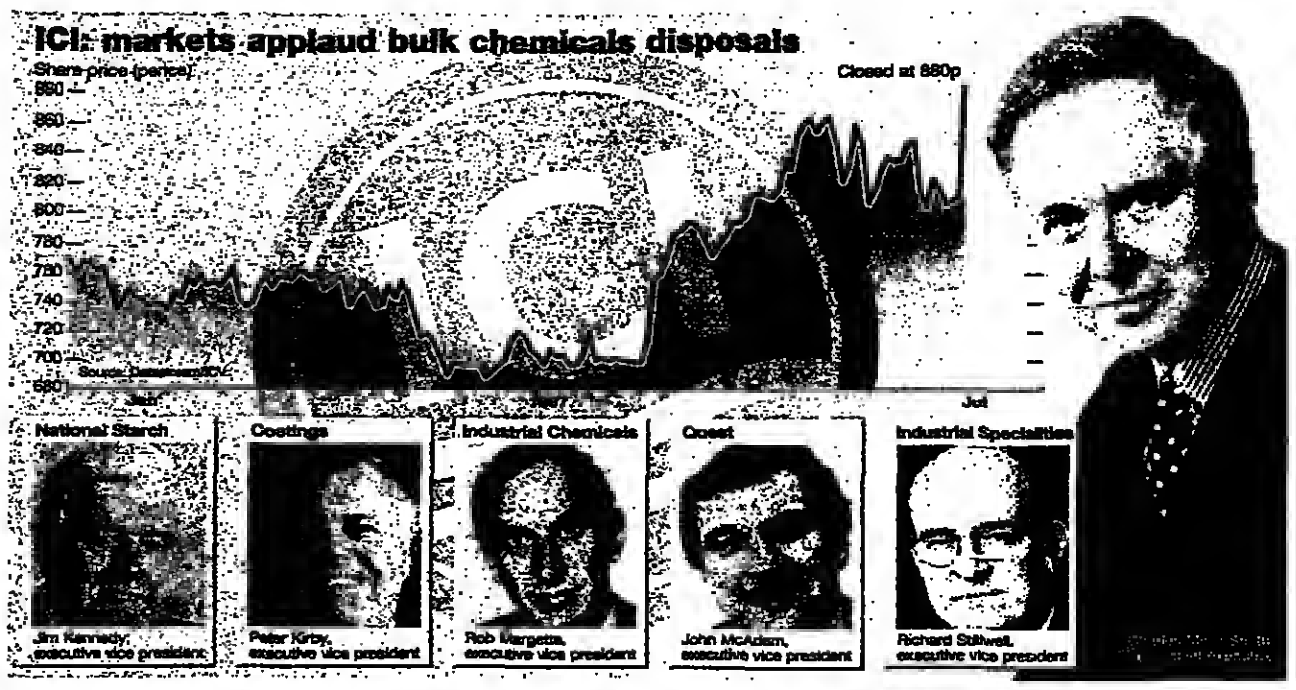
FRANKFURT (DM)		
Rises		
Aachen Mch	1875	+ 125
CKAG Colonia K	188	+ 12
Heidelb Zem	156	+ 5
Holzmann	470	+ 18
Volkswagen Pf	1098	+ 59
Falls		
Kali & Salz	177.0	- 7.5
NEW YORK ($)		
Rises		
AMX Corp	32⅞	+ 2⅛
Applied Magnetic	28¼	+ 2⅜
Lone Star Tech	32½	+ 2⅝
Sulzer Med	27	+ 3⅜
Falls		
Three Five Sys	21¼	- 7⅜
Trans Realty	39⅝	- 3
LONDON (Pence)		
Rises		
Barr & Wallace	318½	+ 26
HIT Ent	332½	+ 27½
ICI	880	+ 69¼
M&W	164½	+ 13
Wace Group	42	+ 8
Falls		
MMS Pet	31	- 7
TORONTO (C$)		
Rises		
GEAC Computer	54.5	+ 7.8
MOSI Mobile	38	+ 3
Semi Tech A	4.15	+ 0.55
Falls		
Cosec Gold	0.9	- 0.5
N Amer Pal	4.25	- 0.55
The Second Cup	8.5	- 0.9
TOKYO (Yen)		
Rises		
[illegible]	422	+ 32
Ind Bank Japan	1660	+ 80
Mitsui Tr & Bk	763	+ 23
Nippon Cred Bk	248	+ 23
Sakura Bank	805	+ 31
Falls		
Seiyo Food Sys	829	- 36
HONG KONG (HK$)		
Rises		
CCL Hldgs	3.48	+ 0.10
Chinese Est	7.10	+ 0.15
HK Electric	31.5	+ 1.4
Falls		
Sime Darby HK	8.75	- 0.25
Vanbonde Intl	12.85	- 0.40
BANGKOK (Bt)		
Rises		
Minor Corp	25.25	+ 2.25
Premier Ent	11	+ 1
Unique Gold	88	+ 6
Falls		
Ayudhya Life	38	- 4
Oriental	119	- 18
Thai Tony Tex	40.50	- 4.25

Paris closed. New York and Toronto prices at 12:30.

DuPont buys ICI divisions

Sell-off will fund Unilever purchase and make group a product leader

By Roger Taylor, Ross Tieman and Andrew Bolger



Jim Kennedy, executive vice president; Peter Kirby, executive vice president; Rob Margetts, executive vice president; John McAdam, executive vice president; Richard Stillwell, executive vice president

Imperial Chemical Industries yesterday announced the sale of its titanium dioxide and polyester businesses for $3bn to DuPont, the US's largest chemicals group.

The deal is part of ICI's £3bn ($5bn) disposal programme to fund its £4.9bn acquisition of Unilever's speciality chemicals business. Together they will transform the company from a bulk industrial chemicals group into a leader in the supply of specialised products. A new executive team will reflect the changed balance of the group, with Mr Jim Kennedy and Mr John McAdam of Unilever joining Mr Peter Kirby, Mr Rob Margetts and Mr Richard Stillwall of ICI to head the group's five divisions.

The company also said pre-tax profits for the first half of the year would be about £160m down from £367m last year. It blamed the strong pound and weak chemicals prices. ICI's shares rose 69¼p to 880p.

The sale, to be completed within nine months, will strengthen DuPont's position as the world's leading producer of titanium dioxide, the pigment used in white paint, lifting its share of global capacity from about 23 per cent to some 35 per cent. In both titanium dioxide and polyester, it hopes a bigger market share will reduce cyclical price fluctuations.

But analysts said DuPont was paying a full price for highly cyclical businesses at an early stage in their recovery. The company said the cash transaction, which is being funded from increased borrowing, would dilute its 1998 earnings per share by 1 per cent. DuPont's shares fell $⅞ to $62⅞ in early trading.

Both companies played down fears that the competition authorities might intervene but realised the deal would be scrutinised. ICI said the sale of its polyester films business was the most likely to encounter problems but added that the deal included provisions to ensure a sale at a good price if this occurred.

Unions for 2,600 ICI employees in the UK businesses to be sold to Du Pont said they were appalled that ICI would contemplate such a deal, because of previous "broken undertakings" by the US group.

They claimed that before the 1993 sale of ICI's fibre business to Du Pont, the US group had promised that all sites would continue to operate, with no job losses. But within 60 days Du Pont had announced 860 job losses with the partial closure of a plant at Pontypool.

Mr Charles Miller Smith chief executive of ICI, said DuPont had invested heavily in the former ICI fibres business and the employees were better off. He said DuPont was committed to growth in titanium dioxide and polyester.

The sale confounded analysts' forecasts that ICI would struggle to achieve its asset disposal programme.

Mr David Ingles of HSBC James Capel said: "They have done well. The have got a better price than expected."

Mr Miller Smith said the company had set itself a target of making the disposals in three years but had almost achieved this in three months.

Last week it announced the sale of its stake in ICI Australia for about £1bn which with £120m from property sales takes ICI to near its £3bn target. The sales will allow ICI to reduce its borrowings from close to £6bn to about £3bn on shareholders' funds of £1bn.

ICI was advised by Goldman Sachs and DuPont by BT Wolfensohn.

Observer, Page 15
Lex, Page 16
DuPont sees money, Page 21

Emu 'may increase chance of settlement failure'

By Edward Luce

The chances of a settlement failure in the European securities market could rise sharply after the introduction of the single currency, according to a report by the International Securities Markets Association, the trade body.

Concern centres on the market for repos – agreements to sell and repurchase bonds and other securities. Isma says European governments must take urgent action if they are to prevent a crisis in the European repo market after monetary union begins in 1999.

This could be caused by a failure of the settlement system, through which buyers pay and take ownership of securities.

Repos are used by central banks to control liquidity and to fine-tune monetary policy. But the report says that, after the introduction of Emu, it is uncertain who will be responsible for managing liquidity in the new European currency in an emergency.

Under the Maastricht Treaty, the national central banks will retain the status of "lender in the last resort" within their national boundaries. This will make it very difficult for a new European central bank in Frankfurt to co-ordinate action to head off a liquidity crunch, according to the report.

"It is not clear who will co-ordinate the management of euro liquidity in a crisis if it is not the ECB," it says.

In addition, differences between national legal systems and between national depositary systems will make it hard to prevent a settlements failure from having a knock-on effect. This could be caused by "weak linkages between domestic depositaries and the implicit risk of ripple settlement failure across the euro area," says the report.

Other problems which governments "urgently" need to tackle include discrepancies between market payment dates, continuity of contracts following Emu and harmonisation of computer software to ensure compatibility between national clearing systems.

The report adds that the chance of a software problem is becoming "increasingly urgent".

Brunswick in Moscow link with Warburg

By John Gapper, Banking Editor

SBC Warburg, the investment banking arm of Swiss Bank Corporation, has taken its place in the rapidly growing market for Russian equities by forming a joint venture with Brunswick Investment, the largest independent stockbroker in Moscow.

The venture with the local firm, founded in 1994 and wholly owned by its directors, will be called Brunswick Warburg. Brunswick's fund management arm will remain separately owned by the local firm.

Credit Suisse First Boston, the investment banking arm of Credit Suisse, is the other western investment bank in Moscow which combines a strong local presence with international distribution.

But other international banks, such as J.P. Morgan, Morgan Stanley, Merrill Lynch, Deutsche Morgan Grenfell and Goldman Sachs, are all aiming to expand their activities in Russia, chiefly through organic growth.

SBC Warburg did not disclose the terms of the transaction, which will give each party a 50 per cent stake in the venture. Brunswick employs about 130 people in Moscow and New York, while SBC Warburg has an office of 10 people in Moscow.

Mr Rodney Ward, chairman of emerging markets in eastern Europe, the Middle East and Africa for SBC Warburg, said Russia "is one of the most exciting places" among emerging markets, and the country interested many investors.

SBC Warburg will continue to trade and sell Russian bonds separately from Brunswick Warburg, which will cover investment banking and equities. While Brunswick directors would manage the company, it would "not be a passive investor".

"We felt that Russia has the most potential of all emerging European markets, and it would take too much time to build up a business there by ourselves in a market that is moving extremely rapidly," said Mr Ward.

Mr Gerard de Geer, former director of Enskilda Securities and Brunswick's chairman, said the venture would pool his company's Russian expertise and corporate client base with SBC Warburg's financial muscle and sophistication.

"As a privately owned company which does not disclose its finances it was not possible for us to underwrite a $2bn equity issue. Now that will be perfectly credible."

Lufthansa near to sell-off

Bonn approaches seven banks as it accelerates final privatisation

By Graham Bowley in Frankfurt

The German government has asked seven international banks to put forward proposals to arrange the final privatisation of its remaining 35.68 per cent stake in Lufthansa, the German airline.

The move to step up talks with banks is a sign that the government is accelerating its efforts to complete the sale of its remaining stake – valued at about DM4.5bn ($2.57bn) – by the end of the year.

The German transport ministry said the sale would most probably take place in October or November after a final arranger or group of arrangers had been selected. It was not clear whether a single bank or a group of banks would conduct the privatisation.

The German finance ministry secured DM2.1bn of the proceeds of the planned privatisation when it placed its stake with the Kreditanstalt für Wiederaufbau, the state-owned bank, at the end of last year.

Analysts expect the final privatisation this autumn to raise a further DM2.4bn for the government.

ABN Amro Rothschild, Dresdner Kleinwort Benson, Deutsche Morgan Grenfell, Merrill Lynch, Morgan Stanley, SBC Warburg and UBS would present their proposals in Bonn on Thursday, an official said.

In a separate development, the airline yesterday announced that Lufthansa Service Holding, its catering division, would seek a stock exchange listing next year in an international public offering, but it said Lufthansa would retain a majority holding.

Analysts said the move to list the catering business – which commands about a one-third market share of the in-flight catering market – was a big step towards boosting shareholder value at the company.

They said the shares of the catering division listed separately would perform better than the parent company's shares since the division was less capital-intensive, less dependent on cyclical factors and its costs were more predictable.

"This is significant. It shows this company, which is not known for its shareholder focus, is beginning to extract shareholder value," said an industry analyst at a bank in London.

The planned privatisation of the government's remaining stake follows the earlier offering of the federal government's shares in the autumn of 1994, which shrank Bonn's stake from about 52 per cent to 35.68 per cent. That offering, which was the first German privatisation to use the book-building method of collecting investors' bids, was co-ordinated by Dresdner.

In the first quarter, the airline reported its first ever first-quarter profit of DM20m.

Israel to sell Bezeq shares to Merrill for $250m

By Judy Dempsey in Jerusalem

The Israeli government has agreed to sell a 12.5 per cent stake in Bezeq, the state-owned telecommunications company, to Merrill Lynch for $250m. The US investment bank will then sell the shares on to other investors.

The decision comes a day after the government confirmed it had postponed a planned public offering in the telecoms group, scheduled for August. That sale is likely to go ahead late in the year.

The latest deal involves Merrill Lynch buying 18.12m of the 90.6m tranche of shares at a 5 per cent discount and the remainder at market price. The price was fixed at Shk9.79, based on last Thursday's close of trading on the Tel Aviv Stock Exchange.

The sale brings the government's stake in Bezeq down to 63.5 per cent. But Mrs Tzippi Livni, head of the Government Companies Authority, charged with privatisation, said it would sell a further 11.5 per cent through a public offering this year. The government plans to cut its holding to 52 per cent.

The deal allows Merrill Lynch to sell back to the government any equity unsold before the end of January. The price would be Shk9.79 a share plus interest based on Libor – the rate at which banks in the London market borrow from each other. The bank is committed to keeping 2.5 per cent.

Investors – restricted to domestic and European activity – will not be allowed to build a stake of more than 5 per cent of the total equity without government approval.

This restriction is designed to avoid a repetition of the case of Cable & Wireless, the UK telecoms group, which amassed more than 10 per cent of Bezeq on the open market, forcing itself on to the board.

When C&W tried to increase its stake recently, the government blocked it, leaving both sides haggling over the UK operator's role at Bezeq.

Analysts said Merrill Lynch should not have trouble selling the stock. "It is still cheap and the company is trading at a low price/earnings ratio of 10.5 compared with its international peers, which range between 14 and 17," said Ms Debra Kodash from Zannex Securities.

But Bezeq's profitability is expected to start suffering after the domestic market in international calls recently opened up. The new competition has led to a 75 per cent reduction in the cost of long-distance calls. International calls last year accounted for 27 per cent of Bezeq's revenues of Shk8.5bn ($2.4bn).

Lex, Page 16
Cellular tender, Page 18

Assi to control Russian joint venture

By Greg McIvor in Stockholm

AssiDomän, the Swedish pulp and paper group, is to take a controlling stake in Segezhabumprom, the Russian pulp and paper sack company it manages and partly owns through a joint venture with Daventree, a Cyprus-based investment group.

The group is to buy Daventree's 50 per cent holding in Stratton Paper, which is owned jointly by the two groups and which bought a 57 per cent stake in Segezhabumprom last year.

Assi, which paid $40m last year for its 50 per cent stake in Stratton Paper, did not disclose the value of the latest deal.

The transaction means production at Segezhabumprom – Russia's biggest maker of paper sacks – can resume after a four-month shutdown.

Operations were suspended after bureaucratic difficulties with the local Karelian and Russian central authorities prompted landers to baulk at a planned $100m loan for plant modernisation.

Assi said yesterday that most of the problems – relating to unsettled tax bills, pension fund payments and land rights – had been resolved.

But Daventree, controlled by Mr Michael Dingman, the Bahamas-based entrepreneur, and Mr Viktor Kozeny, his Czech partner, signalled this month it would not provide capital for the planned start-up.

Assi said the European Bank for Reconstruction and Development and the International Finance Corporation would join it and the local Karelian government, which owns about 20 per cent of Segezhabumprom, in a new share issue.

"Segezhabumprom for the first time will have owners with a mutual and long-term strategic interest," it said.

The deal concludes a chequered recent history between Assi and Daventree, and follows the $130m purchase by Assi in May of Daventree's 51 per cent stake in Sepap, the Czech pulp and paper company.

In 1995 Daventree won an acrimonious battle with Assi for control of Sepap, although the companies later agreed to bury their differences and work together.

Daventree – formed by the merger of Mr Dingman's Stratton and Mr Kozeny's Harvard Group – was the vehicle for a $250m incursion into eight Czech quoted companies in 1995, as well as Segezhabumprom. Daventree has since quit some of these investments by selling to strategic investors.

Segezhabumprom's European-built machines can produce up to 1.2bn heavy duty sacks a year at its plant 550km north of St Petersburg. Last year, though, it produced only 100,000 tonnes.

Assi's main task has been improving productivity. The production rate has been boosted to 160,000 tonnes.

Moody's strips Bank Austria of triple-A rating

By Eric Frey in Vienna

Moody's, the international ratings agency, yesterday downgraded Bank Austria's long-term credit rating, reflecting increasing doubts about the city of Vienna's support for the country's largest bank.

The rating was cut from AAA to AA2, the second-highest ranking, following the city council's decision to sell the 46 per cent it controls in the bank over the next six years. Bank Austria's rating was traditionally supported by an official guarantee for all its assets in case of liquidation.

Bank Austria said it regretted Moody's decision, which will marginally increase borrowing costs on Sch120bn ($9.6bn) of long-term debt but may have a lasting effect on the bank's international reputation.

It said the public guarantee was set by law and would remain even if the stake controlled by the city was sharply reduced. However, it was pleased with the Moody's positive evaluation of its takeover of Creditanstalt, Austria's second-largest bank. Creditanstalt's credit rating was raised from A1 to AA3.

Moody's also confirmed Bank Austria's financial strength rating of C+, which does not take into account any guarantees.

The move followed a political debate over the Creditanstalt takeover and the public sector influence in Bank Austria, which is close to the Social Democrats.

The conservative People's Party, the junior coalition partner of the Social Democrats, resisted Bank Austria's bid for the traditionally conservative Creditanstalt. When the People's Party lost the battle in January, it demanded that the Vienna government cut its stake in Bank Austria, which the city controls through AVZ, a semi-independent foundation.

ITC plays to its strengths

The Indian group is pulling out of several non-core sectors

Diversifications made in the past are giving ITC, India's largest producer of cigarettes, a torrid time.

A disastrous experience in the financial services and paper businesses has led the board to ask Mr Yogesh Chandra Deveshwar, chairman, to prepare a plan that will allow ITC to disengage from several non-tobacco sectors.

The move is backed by BAT Industries, of the UK, which owns 33 per cent of ITC. BAT says it will give "total support to the chairman to restructure what now appears to be an unwieldy basket of businesses".

Mr Michael Prideaux, director of public affairs at BAT, says: "BAT is not going to recommend any model for ITC. It is perfectly appropriate for our Indian associate to be in businesses other than tobacco. If the Indian federal government desires that ITC should have some non-tobacco businesses in its portfolio, then it is fine by us. What we are suggesting is that ITC should not be doing anything which it cannot do well."

In the 1980s, ITC, like other big groups in India, sought growth through a host of non-related businesses. The government put pressure on ITC to invest in core areas of the economy such as edible oils and paper but, as Mr Deveshwar admits, the group did not have the expertise to run these efficiently.

Mr K. L. Chugh, Mr Deveshwar's predecessor who left the company in 1996, had been keen to build a large coal-fired power plant but, according to Mr Prideaux, BAT did not allow it to proceed as ITC knew nothing about the power business.

ITC is ready to sell its 49 per cent of ITC Classic, a non-banking financial services group, which incurred a loss of Rs2.85bn ($79.8m) in 1996-97, compared with a profit of Rs313m a year earlier. BAT has made it clear that "ITC Classic is not the right route for it to get into the insurance business in India whenever it is thrown open to the private sector".

ITC has pumped nearly Rs2.65bn into ITC Classic so that it can meet its debt obligations. "Some of our best managers have been deputed to ITC Classic for turning it around," ITC says.

"The cigarette major's exit from the financial services sector will depend on how quickly ITC Classic is put back on the profit stream. ITC wanted GE Capital, which is already in India, as its strategic partner in ITC Classic. But GE Capital cried off after doing due diligence on ITC Classic," said Mr Navin Suchanti, managing director of Pressman Securities, the stockbroker.

In order to improve the working of ITC Classic before a sale, Mr Deveshwar is looking for a "strategic partner who has access to low-cost funds and who is more competent than us to run the financial services business".

It is using the same strategy in its paper business. Last year profits at ITC Bhadrachalam Paperboards, in which ITC owns 30 per cent, fell 59 per cent to Rs167m after an eight-month delay in a new 120,000 tonne capacity packaging board plant, which raised the project cost by 21 per cent to Rs6.32bn.

"We are also looking for a partner who will give us technology to develop our cigarette tissue and speciality paper business," Mr Deveshwar says.

One area which BAT is encouraging ITC to diversify into is hotels. Mr Deveshwar finds BAT highly supportive of his recommendation to invest heavily in building and acquiring hotels in the next few years. Most of the Rs19bn that the group proposes to invest in the next five years will be claimed by the hotel business.

"ITC has proved to its shareholders that hotels is one non-tobacco business where it excels. India accords high priority to tourism, which ITC should exploit," says Mr Prideaux.

The company says the contribution of hotel business to group profits will rise from 17 per cent to nearly 50 per cent within 10 years.

This will help offset ITC's edible oils business, which it entered at the prompting of the federal government which wanted the country to be less dependent on imports. But the venture has cost the company dearly and it is negotiating the sale of the business to Conagra Foods, of the US.

Analysts believe that ITC should be able to complete the restructuring in a couple of years, as again BAT supports the initiative.

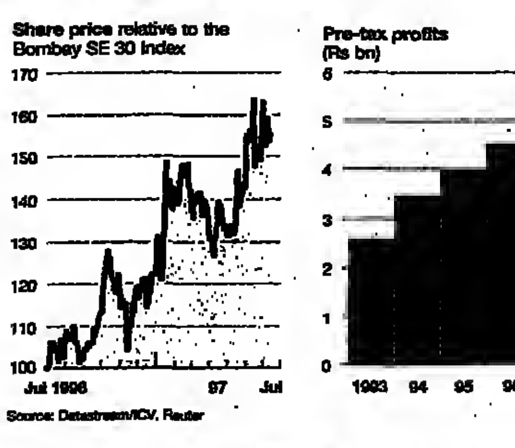
There is, however, a sense of victory at ITC that BAT finally gave it the licence to produce 555 State Express and Benson & Hedges cigarettes at its new factory in Bangalore.

"BAT wants to get its international brands out there well ahead of our competitors R.J. Reynolds and Philip Morris. What clinched the issue for ITC is its strong distribution network," Mr Prideaux says.

The brand licensing agreement, says BAT, is a "watershed in our relationship with ITC. The only thing that we are after is to have influence in the company commensurate with our 33 per cent ownership."

Kunal Bose

ITC: back to its roots



Source: Datastream/ICV, Reuter

Yogesh Chandra Deveshwar, chairman

Stet plans to undercut Telefónica

By Tom Burns in Madrid

Stet, the Italian telecoms carrier which will operate Retevisión, Spain's second operator, plans to break Telefónica's monopoly with aggressively priced services that will be available to clients in the main cities after the summer.

In a rapid follow-up to its award of Retevisión's licence last week, the consortium led by Stet and Endesa, Spain's biggest electricity group, said yesterday that its charges for domestic long-distance and international calls would be 15–20 per cent lower than those of Telefónica, the former monopoly operator.

Initial services will start as soon as Retevisión completes negotiations on the price it will have to pay Telefónica for the use of its lines.

Under government guidelines, these interconnection fees have been fixed in a low price range to give Retevisión a competitive edge. The final fees have to be agreed within two months.

Retevisión, however, plans to provide services using its own digital network to Spain's 12 biggest cities by December, and to a further 50 large domestic urban centres by August next year. The new operator will spend more than Pta100bn ($670m) over the next two years to develop its network.

The ambitious start-up strategy indicates that Retevisión's new owners intend to build up business as fast as possible ahead of full deregulation of Spanish telephone services in December next year. It aims to achieve an operating profit by 2000 and to operate 1m lines by 2007, earning revenues of Pta230bn.

Retevisión's assault on Telefónica's domain will be helped by the back-up of Endesa, which has a 21.7 per cent stake in the operator – the same stake as Stet – and by Unión Fenosa, Spain's third ranked electricity generator and distributor, which has an 8.6 per cent stake.

Between them, the two power groups have some 12m domestic clients and provide a nationwide optic fibre network to the new operator.

Telefónica, however, will be a tough competitor. The telecoms group, which was fully privatised in February and subsequently allied itself to the Concert venture being formed by British Telecommunications and MCI, of the US, operated 16m lines in Spain last year and reported an operating profit of Pta575.9bn.

INTERNATIONAL NEWS DIGEST

Third cellular tender for Israel

Israel will today issue the tender for a third cellular telephone operator, which has already attracted 200 local and foreign companies. The move is aimed at improving service and lowering rates in an already competitive market. It coincides with a decision by the government to decrease its stake in Bezeq, the state-owned telecommunications company.

Israel's mobile phone market has grown from less than 100,000 customers in January 1995 to about 1.5m this year. The country has a population of 5.7m. Mrs Limor Livnat, communications minister, said Israeli cellphone users led the world in the number of call minutes per customer. The ministry said the cellular market was worth an estimated $828m a year. The market is currently controlled by Pelephone, a joint venture between Bezeq and Motorola, of the US, and Cellcom, which includes BellSouth, of the US.

The new operator will be allocated GSM frequencies, allowing access to the network from outside Israel, which the two existing companies cannot provide. Israel's communications ministry also said several leading international telecoms companies, including British Telecommunications, AT&T, of the US and Ericsson, of Sweden, were interested in the tender. The deadline for bids is October 28.

Avi Machlis, Jerusalem

■ MEDICAL EQUIPMENT

Sulzer Medica shares up on debut

Shares in Sulzer Medica, the medical equipment operation of Swiss engineering group Sulzer, closed their debut day of trading at SFr406, well ahead of the SFr350 issue price but down on the opening price of SFr440.

The initial public offering, which closed last week 25 times oversubscribed, involved 2.3m new shares, or about 24 per cent of the company, and raised about SFr800m ($548m) before costs. The company said recently the money would be used for acquisitions. It is seeking a New York listing for its newly-issued shares.

World Stocks, Page 40

Mark Mulligan

■ BANKING

Vontobel up 48% at interim stage

Vontobel, the Swiss banking group, said yesterday it was on course for an "above average" full-year result after reporting a 48 per cent rise in net income for the six months to June. The profit rise, from SFr35.1m to SFr52.1m ($35.7m), came from operating results of SFr103.6m compared with SFr73.3m last time. The group said all main earnings components showed double-digit growth, with net commission ahead 31 per cent to SFr123.1m. Trading income was also up strongly, at SFr45.6m against SFr38.4m. Of this, securities trading contributed SFr38.4m and foreign exchange and metals dealing, SFr11.2m.

Mark Mulligan

■ MOROCCO

Epargne Croissance to delist

Morocco's portfolio company Societe Epargne Croissance said yesterday it would be delisted from the Casablanca stock exchange on August 6 because its shares were not being traded enough. The company said: "We asked the bourse watchdog to delist us because with only 1 per cent of our capital listed, it was not regularly traded."

Al-Amane insurance holds 99 per cent of the company, which last traded in May.

The bourse regulatory body, Conseil Deontologique des Valeurs Mobilières, which was set up in 1994 to regulate trade on the stock exchange, has delisted 18 companies since then. There are 48 companies listed on the Casablanca bourse.

Reuters, Rabat

■ HUNGARY

GEC-Alsthom unit in turbine deal

European Gas Turbines, a subsidiary of the Anglo-French GEC-Alsthom group, has signed a $60m contract to provide two quick-start 110MW gas turbine power units to MVM, the Hungarian state electricity company. EGT has undertaken to provide the turbines, alternators, transformers and a 10-year maintenance programme in the project, which is financed by a $60m World Bank loan. The loan, guaranteed by the Hungarian government, is of 15 years. The World Bank-supervised tender attracted nine bidders, including ABB, Siemens, Elin and Ansaldo.

Kester Eddy, Budapest

■ IRAN LIBYA SANCTIONS ACT

WestLB stands by Iran loan

WestLB, the German bank, yesterday refused to withdraw a loan to Iran's Offshore Engineering and Construction Company in spite of being warned by a US senator that the deal would violate US law. The bank said it was not breaching any laws because trade finance deals were not covered by the 1996 Iran Libya Sanctions Act.

"We are acting fully in line with the law," the bank said. WestLB belongs to a bank consortium that has lent the state-owned Iranian company $90m. WestLB's share of the loan is $40m. The loan will be used to finance the supply of machinery and technical equipment by German, French and Belgian exporters to develop the Sourough oil field, WestLB said.

Reuters, Düsseldorf

COS AND FINANCE: ASIA-PACIFIC

Two Thai banks lift bad debt provisions

By Ted Bardacke in Bangkok

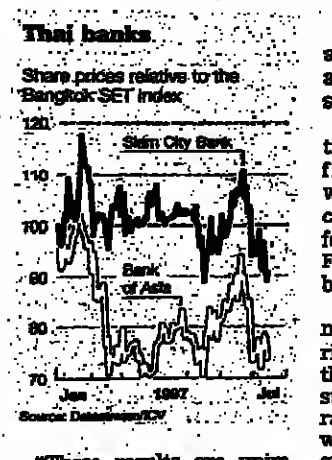
Two mid-size Thai banks yesterday accompanied reports of moderate profit growth for the first half of this year with large increases in provisions for doubtful and bad debts.

Siam City Bank said its first-half net profit was Bt1.82bn ($35.2m), up 5.8 per cent on the same period last year.

It said provisioning for bad and doubtful debts for the first half of the year was Bt770m, up 152 per cent.

Bank of Asia reported first-half net profit 4.9 per cent higher at Bt846.5m. It said provisioning for bad and doubtful debts was Bt250m, up from Bt150m a year earlier.

Analysts said that the results revealed little about the banks' future performance because they cover the period leading up to the de facto devaluation of the Thai baht.



"These results are unimportant: it's a different country now," said a banking analyst with a European brokerage house. "The next quarter is the key for setting the standard to come."

Analysts are expecting loan and deposit growth to fall sharply in the third quarter. With loans growth the main driver behind bank earnings, net profit should fall substantially as well.

The fall in deposits is already causing concern about the liquidity at some small and mid-size banks.

The Thai Bankers Association yesterday denied that five commercial banks would be shut down by the central bank. The statement followed a similar denial last Friday by the Thai central bank.

Analysts also said that non-performing loans would rise this year, as the fall in the value of the baht and subsequent rise in interest rates meant manufacturers would begin to fall behind on their loan payments, similar to the way property developers did last year.

Loans to the manufacturing sector account for between 30 and 40 per cent of all Thai bank loans, compared with about 10 per cent to the property sector.

"The [bad loan problem in the] manufacturing sector will make the property sector look pale by comparison," one analyst said.

Ekran plans disposal of subsidiary to raise cash

By James Kynge in Kuala Lumpur

Ekran, the Malaysian infrastructure company overseeing the construction of the troubled M$13.6bn (US$3.2bn) Bakun dam, plans to sell a subsidiary to raise much-needed cash.

The move comes after Ekran's disastrous rights issue, which had been expected to raise M$1.46bn but was undersubscribed by 62.7 per cent.

The issue's failure signalled investor unease with the Bakun project, which involves building a 2,400MW hydro-electric dam in the Malaysian Borneo jungle. Asea Brown Boveri, the Swiss-based engineering firm, is the lead contractor.

Ekran said its controlling 38 per cent stake in Wembley Industries, a listed infrastructure company also scheduled to be involved in the Bakun project, would be sold for M$284m. It named the buyer as Mr Tiong King Sing.

Observers said the proceeds were unlikely to cover Ekran's planned acquisition of a 32 per cent stake in Bakun Hydroelectric Corp, which is expected to be valued at about M$3bn after an initial public offering scheduled for next month.

Mr Ting Pek Khiing, executive chairman of Ekran, had hoped to use M$660m of the money raised from the rights issue to help buy the Bakun stake. But after the failure of the issue, he was forced to pay M$859.8m for the unwanted shares.

Analysts believe more of Mr Ting's business empire might be put up for sale. He also controls Pacific Chemical, a timber products company, PWE Industries, an engineering group, and Granite Industries, a property and timber concern. The three listed companies have been awarded contracts related to the Bakun project.

The dam has been named as a national project by Dr Mahathir Mohamad, Malaysia's prime minister.

Dr Mahathir regards the project as essential for the development of Sarawak, a relatively underdeveloped state in Borneo. However, other members of the government, including Mr Anwar Ibrahim, the acting prime minister while Dr Mahathir is on a working holiday overseas, have expressed opposition to the dam.

New ICIA shares rise to a premium

By Bruce Jacques in Sydney

Shares in the A$1.9bn (US$833m) global offering in ICI Australia listed on Australian stock exchanges rose to a premium yesterday.

The shares, allocated at the weekend following the decision by Imperial Chemical Industries, of the UK, to sell its controlling stake in its Australian offshoot, closed at A$12.58 after trading as high as A$12.66.

The closing price represented a premium of more than 5 per cent on the A$11.95 a share issue price to retail investors and a 1.8 per cent premium on the institutional issue price of A$12.35.

The share performance, against the trend of an overall market that lost 1 per cent of its value, followed strong demand for the ICI Australia offering, which forced ICI to scale back allocations.

Mr Philip Weickhardt, managing director of ICI Australia, said the strong demand partially reflected confidence engendered by the company's decision to buy back 30m of its own shares.

He said the offer shares had been distributed among 50,000 new shareholders, with about 20 per cent held outside Australia. The offer underwriters hold a 30-day option on a further 12m shares.

Mr Weickhardt was confident this option would be exercised and ICI of the UK would be "entirely off the register".

Following the change in control, Mr Weickhardt foreshadowed a push to diversify geographically, especially in Asia where he indicated the company had so far been slow to move.

Previously listed ICI Australia shares fell 9 cents to A$12.61 on Australian stock exchanges, reflecting the large increase in shares on issue.

The two classes of shares are expected to be integrated following settlement on float scrip, expected on July 25.

ASIA-PACIFIC NEWS DIGEST

Hyundai in rights issue to cut debt

Hyundai, South Korea's biggest conglomerate, said it was planning to raise Won3,000bn ($1.99bn) in new capital through rights issue offerings and property sales to reduce its debt burden of nearly five times equity. Hyundai has the largest debt burden of the country's five top conglomerates – or *chaebol* – because of an expansion of its semiconductor and car businesses. Hyundai is Korea's largest car producer and its second biggest manufacturer of memory chips.

However, Hyundai's capability to service its debts has been hampered by a downturn in global demand for semiconductors and sluggish domestic car sales. Under its financial restructuring plan, the group plans to raise Won1,000bn through rights issues this year and another Won2,000bn by selling property assets.

The government has proposed that the *chaebol* reduce their debt burdens to avoid further bankruptcies such as those of the Hanbo and Sammi steel groups this year.

John Burton, Seoul

■ JAPANESE SECURITIES

Dai-ichi to liquidate unit

Dai-ichi Securities, one of Japan's second-tier brokers, said yesterday it would liquidate Dai-ichi (Switzerland), its Swiss unit, as part of a plan to restructure its European operations. Japanese securities companies have been quitting or downsizing their overseas operations before the government's "big bang" financial deregulation. Reforms over the next three years are expected to intensify competition in the country's financial sector and have already prompted foreign financial institutions to set up or expand operations in Japan. Medium-sized brokers such as Dai-ichi are most likely to be affected by the increased competition, and are hastening to consolidate unprofitable operations.

Dai-ichi (Switzerland) was established in 1985 to focus on trading Japanese equities for European investors, but has turned in a poor business performance. Its closure would cause Dai-ichi Securities to suffer an extraordinary loss of Y990m ($5.1m) in the year to March 1998, the company said. Last year Dai-ichi Securities incurred a parent recurring loss for the seventh *consecutive* year. For the current business year, however, the broker has not changed its forecast for parent after-tax profit of Y600m, as it is expecting gains in unrealised profits on its stock portfolio following the rise in the Japanese stock market.

Gwen Robinson, Tokyo

■ FUND MANAGEMENT

DMGA plans Sydney transfer

Deutsche Morgan Grenfell Australia, the local investment banking arm of Deutsche Bank of Germany, will transfer Australian-dollar fund management and marketing operations from London and Singapore to Sydney. The move is part of DMG's May acquisition of Axion Finds Management from the New South Wales state government. DMG would also add 500 jobs across its Australian investment banking operations by 2001, said Mr John Barnes, managing director. The expansion, fuelled by the expected growth of Australia's A$260bn pension fund industry, would include positions in trading, investor services, research and information technology, he said.

Axiom has A$19bn (US$8.3bn) in funds under management. Deutsche Bank's Australian operations recorded after-tax profits of A$46m last year, up from A$44m the year before.

AP-DJ, Sydney

HP, AT&T in electronic commerce pact

By Louise Kehoe in San Francisco

Hewlett-Packard and AT&T are to collaborate in the development and marketing of technologies and services that make it easier for businesses to build electronic storefronts on the internet, the companies announced yesterday.

The alliance between the second-largest US computer company and the leading telecommunications group reflects the trend toward transforming web sites into online storefronts, where visitors can not only read about products but also purchase them.

Electronic commerce is expected to be worth nearly $200bn by 2000, with business-to-business shopping accounting for about one-third of the total, according to Forrester Research, a computer industry analysis group.

Until recently, companies planning to set up electronic storefronts were forced to select from a confusing array of software to implement functions such as payment systems, order processing systems and web site design software.

HP and AT&T plan to bring all of these elements together while providing businesses with the option of managing some of the functions of an electronic commerce web site in-house.

An electronic merchant might, for example, design, host and control its own web site but outsource the complex "back office" functions to process secure credit-card transactions to AT&T.

The telecoms group will provide networking and secure-purchasing capabilities, while HP will provide computer equipment and software.

HP's third-party resellers will offer AT&T's "Secure-Buy" services, which provide the technical infrastructure and management needed to conduct secure transactions over the web.

The two companies also plan to develop jointly technologies to improve the performance and reliability of electronic commerce.

In a similar partnership, also announced yesterday, Open Market, a leading supplier of internet commerce software, has linked with ANS Communications, a subsidiary of America Online.

ANS will provide web hosting services for companies wanting to set up and control their own electronic storefronts but not worry about the internet commerce infrastructure.

"This represents a growing trend among service providers to take the cost and complexity out of internet commerce," said Ms Gail Goodman, vice-president and general manager of Open Market's internet commerce division.

Into Latin America on a Mexican wave

Bank of Nova Scotia is one of the most active in the region

Bank of Nova Scotia planned to walk away from its investment in Inverlat when the peso crisis hit in late 1994.

Instead, the Mexican authorities persuaded Canada's most geographically diverse bank to help stabilise the troubled Mexican financial services group through an injection of equity and the secondment of some of Scotiabank's most skilled credit specialists.

Inverlat not only gained a new lease on life, but Scotiabank's decision to stay in Mexico was an important springboard for a thrust throughout Latin America. It is already the biggest foreign bank in the Caribbean and has become one of the most active in Central and South America.

"There are only two or three more [deals] and we'll have a pan-South American bank," says Mr Peter Godsoe, Scotiabank chairman and chief executive. "It may look like chaos from the outside, but we're relatively comfortable that we can knit them together."

The Canadian group has focused in Latin America on mid-sized institutions with a bias towards retail banking. Its investments include:

- A 16 per cent stake in Inverlat, with an option for a further 39 per cent in March 2000. Banco Inverlat is Mexico's fourth-biggest bank with 312 branches. The group also has investment banking, leasing and factoring operations.
- 80 per cent of Costa Rica's Banco Mercantil, with assets of about C$60m (US$43.8m).
- A 28 per cent interest in Banco Sud Americano, Chile's ninth-ranked bank with assets of US$3.3bn.
- 25 per cent of Banco Sudamericano, a Peruvian bank with assets of US$270m.
- Earlier this month, Scotiabank agreed to pay C$360m to boost its stake in Argentina's Banco Quilmes from 25 per cent to 100 per cent. Quilmes has assets of US$1.8bn and 86 branches.

Thanks partly to connections with influential overseas Chinese families, Scotiabank is also building a sizeable presence in east Asia. It owns 40 per cent of Solidbank, a profitable, 100-branch operation in the Philippines.

The group has investments in Thailand and Malaysia, and is negotiating a joint venture in Indonesia. An expansion in India is set to be revealed within the next few weeks.

Elsewhere, the bank has expanded in Greece, where it has seven branches, to strengthen its global shipping and tourism business.

Scotiabank has thrown substantial management and technology resources behind its overseas affiliates.

About 20 executives, with more to follow, have been seconded to Inverlat to help stabilise its loan portfolio and train local employees in credit appraisal and retail banking. Inverlat recently launched a new-car loan designed by Scotiabank.

International banking – including retail and commercial services, as well as trade finance – produced net income of C$236m in the fiscal year to October 1996, equal to 22 per cent of Scotiabank's total earnings. The bank, Canada's fourth biggest, has assets of C$176bn.

Caribbean operations are especially profitable. "Considering the size of the market, they really do quite well," says one former employee.

The bank and its affiliates employ about 17,000 Spanish-speaking people, equal to about half Scotiabank's own payroll. Mr Godsoe says the South American business has the potential to surpass the bank's Canadian operations.

But Scotiabank faces a number of hurdles before that dream is realised. Returns from most of the South American investments have so far been less than stellar.

One reason is the substantial investment required to train local staff, streamline procedures and, in some cases, improve the quality of loan portfolios.

Scotiabank took a C$145m write-down in late 1995 on a former 8 per cent stake in Inverlat. According to Mr Godsoe: "It wasn't the [peso] devaluation that cost us. It was the fact that the bank wasn't well run." Recent currency turmoil in Thailand and the Philippines is also like to hit the bank's exposure to those countries.

Scotiabank is challenged by intensifying competition in many new markets as local financial institutions consolidate, and other powerful foreign banks – notably Citibank, HSBC and Spanish banks – move in.

For instance, the speed of bank consolidation in Chile has caught Scotiabank by surprise. Its local affiliate, Banco Sud Americano, has so far been left on the sidelines by a tide of mergers and acquisitions.

But Scotiabank has some strengths of its own. Its expertise in Canada is well regarded, especially in the retail market. The bank has bid C$1.3bn for National Trust, a medium-sized group specialising in mortgages and fiduciary services.

Long experience outside North America and Canada's increasingly diverse population have given Scotiabank a strong international culture.

Vietnamese immigrants on the bank's payroll in Toronto volunteered to help set up its office in Hanoi. The executive vice-president for finance is a Sikh, and the head of the operations division is Lebanese.

Peter Godsoe: 'relatively comfortable' about knitting the apparent chaos together

Mr Godsoe justifies the drive into emerging markets on the grounds of long-term growth prospects for banking services. Besides a vast, untapped pool of consumers hitherto mistrustful of banks, these markets are less vulnerable to "disintermediation" by non-bank financial services, such as mutual funds.

Mr Godsoe sees a bright future as cross-border takeovers and mergers become the order of the day. "You've got five to 10 years of attracting people into the banking system who aren't part of it," be predicts.

Bernard Simon

NationsBank ahead of expectations for quarter

By Richard Waters in New York

NationsBank topped Wall Street expectations with a 26 per cent increase in after-tax earnings for the second quarter, to $782m, leading a group of big US banks that reported solid earnings.

Earnings per share at the South Carolina-based bank rose only 5 per cent to $1.05, however, reflecting tha extra shares issued in the past year to pay for its acquisition of Boatman's Bancshares. The dilntion from that acquisition also led to a decline in NetionsBank's return on equity, to 15.25 per cent from 18 per cent.

In recent weeks, the bank has raised eyebrows with its planned $1.2bn acquisition of Montgomery Securities, a price that is considarably higher than that paid in similar daals by other banks. However, the financial effects of the Montgomery deal have generally been disregarded by US bank analysts as being too small to cause any serious concern.

The stock market had been expecting earnings of around $1 a share, and pushed NationsBank's stock np $1⅛, to $67¾. Among other bank shares to rally on earnings nsws, First Chicago NBD's stock climbed 1\frac{1}{16}$ to 64\frac{1}{16}$. The midwest's biggest bank reported earnings of $1.20 a share, up from $1.09 a year before.

NationsBank's advanca reflected a 25 per cent rise in net interest income, to $2bn, and a 27 per cent increase in non-interest income for the quarter, to nearly $1.2bn. The company said its efficiency ratio – the ratio of non-interest expenses to total revenue – fell in the latest period to 53 per cent, against 54.3 per cent a year ago.

Gas Natural successful in R$622m Brazilian auction

By Geoff Dyer in São Paulo

A consortium led by Gas Natural, the dominant gas distributor in Spain, won an auction yesterday to buy the two gas companies owned by the Brazilian state of Rio de Janeiro, for R$622.2m (US$576m).

The sale of Companhia Estadual de Gás (CEG) and Riogás, both gas distributors, represents the first privatisation of state-owned gas companies in Brazil and underlines the gathering pace of the country's privatisation programme.

The winning consortium also included Iberdrola, Spain's second largest electricity company. Gas Natural's largest shareholder is Repsol, the Spanish oil and chemicals group.

A total of six consortia, grouping 29 companies, took part in the auction. Bidders had to put in offers for both companies, with the winner being the highest combined bid.

The auction, at the Rio de Janeiro stock exchange, was delayed after a judge awarded an injunction suspending the sale resulting from a legal action taken by a Communist party stats deputy. But the state government succeeded in overturning the injunction yesterday morning.

CEG is responsible for the supply of gas for the Rio Metropolitan region. It has 559,000 customers and distributes 1.7m cubic metres of gas a day. The company hopes it will make its first profit of the decade this year.

Riogás was created last year as a partnersbip between the Rio government and Petrobrás, the federally-owned oil and gas company, to supply gas to industrial customers in the state.

AMERICAS NEWS DIGEST

Raytheon to sell units for $750m

Raytheon, the US aerospace and engineering group, is selling three of the five business segments, and certain receiveables, of its Appliance Group unit for e total of $750m, as part of moves to sharpen its strategic focus. It said it was selling the unit's home appliance, heating and air conditioning, and commercial cooking segments to Houston-based Goodman Holding for $550m in cash.

The Appliance Group will also sell receivables to an undisclosed party for $200m. Raytheon said it would retain Appliance Group's commercial laundry and electronic controls segments. The company said the two segments combined accounted for 20 per cent of Appliance Group's revenues and 50 per cent of its earnings in 1996. Raytheon said it was continuing its strategic assessment of the two businesses.

The company said the proposed sale, which it expected to complete in its third quarter, was subject to government approval. *AP-DJ, Lexington*

■ MEDIA

Gannett surges in quarter

Gannett, the US media group, said yesterday that its newspaper businesses posted record operating profits for the second quarter. Operating cash flow from newspapers jumped 25 per cent, quarter-on-quarter, to $305m, boosted by strong advertising demand, a 26 per cent reduction in newsprint expenses, strong performance at its USA Today newspaper, and a favourable comparison at The Detroit News, Gannett said.

The company said broadcasting cash flow grew 18 per cent, quarter-on-quarter, to $111.7m, on revenues of $189.2m, a 7 per cent jump. It also said it expected to complete the acquisition of Army Times Publishing in the third quarter.

Gannett made the comments on the release of second-quarter earnings, which totalled $194.7m, or $1.38 a share, against $150m, or $1.07, in the same period last year. The First Call consensus of estimates for the quarter was earnings of $1.35 a share. *Reuters, Arlington*

■ TELECOMS

Telcel to invest $160m

Telcel, the Venezuelan cellular telephone company, is launching a six-month, $160m investment plan to expand significantly its service throughout the country in response to unexpectedly large demand. It said it would double its capacity to process domestic calls and increase its coverage, making its service available to 90 per cent of the population by the end of the year.

Telcel and its competitor Movilnet, a subsidiary of the telecommunications company CANTV, have experienced bottlenecks in their ability to process calls in recent months, leading to complaints by customers.

The number of cellular phone users in Venezuela has rocketed in recent months as the country comes out of a six-year recession. According to Conatel, the regulatory agency, the number of cellular phone users has increased from 450,000 in 1995 to just over 800,000 currently. Venezuela has one of the highest cellular phone market penetrations in Latin America.

Telcel, part of the Cisneros Group of Companies, a media and consumer products conglomerate, has more than half of the Venezuelan cellular market. *Raymond Colitt, Caracas*

■ ENERGY

Enron Oil declines

Enron Oil & Gas, the US energy group, said its second-quarter net income, discretionary cash flow and net operating revenues were lower than in the same period in 1996 primarily due to lower gains and proceeds from property sales and other marketing net income.

The group, which is majority owned by Enron Corp, reported second-quarter net income of $24.6m, or 18 cents a share, against $47.6m, or 30 cents, in the year-ago period. Discretionary cash flow was $123.9m in the quarter, down from $176.5m in the year-ago quarter.

Enron Oil said it was on schedule to meet its 1997 targeted volume growth. "We are very pleased with the results of our programme in North America during the first half of this year and excited about our prospects as we enter the second half," said Mr Forrest Hoglund, chairman and chief executive. The company said total North America equivalent production increased more than 9 per cent in the first half of the year compared with a year ago. *Reuters, Houston*

■ ENVIRONMENT

New Waste Management chief

Waste Management, the US-based waste disposal group, has chosen Mr Ronald LeMay, currently president and chief operating officer at Sprint, the US telecoms group, as its chairman and chief executive. He will replace Mr Dean Buntrock in both posts.

Sprint said Mr William Esrey, 57, Sprint chairman and chief executive officer, would assume responsibility for both the chief executive and chief operating officer positions following Mr LeMay's departure.

Mr Buntrock, who is 66, first retired as chief executive of Waste Management in June 1996, but re-assumed the position in February after Mr Philip Rooney resigned as president and chief executive following pressure from dissatisfied investors, including Mr George Soros, the international financier. *Agencies, Chicago*

US long-distance telecommunications groups are finding it difficult to break into new markets

Baby Bells cling to their local monopolies

If the level of competition in tha New England state of Connecticnt is anything to go by, it could take years before newcomers such as MCI make meaningful headway in the local telephone business. It is that dilemma, more than anything else, that could eventually force the sort of regulatory changes that the country's second-biggest long distance company called for last week to make competition a reality.

Connecticut has provided something of a test case for competition in the local telepbone business for some time. Southern New England Telecommunications, ths stats's local carrier, bas always stood outside the Bell system, and its monopoly on local calls was broken three years ago by stats regulators.

Rivals, though, have found it almost impossible to break into Connecticnt, taking only a minuscule portion of the state's local calls. SNET, on the other hand, has been highly successful in stealing long-distancs customers, signing up around two out of every five telephone users in the state – a fact beld up last month by Mr Reed Hundt, chairman of ths Federal Communications Commission, as an indication of the effects that competition could eventually bave around the country.

It is this one-sided effect of competition that lies behind the two events that have hit the US telecoms industry in the past two montbs: AT&T's discussions, eventually abandoned, about a merger with SBC Communications, and MCI's announcement that it would lose $800m this year, and probably as much again in 1998, from its efforts to break into local markets. The latter reverberated across the Atlantic, shaking the $20bn merger plans of MCI and BT.

Both the AT&T and MCI developments reflect the apparent vulnerability of long distance companies to competition in their core markets and the difficulties they have had in breaking into local calling since the passage 18 months ago of the Telecommunications Act.

According to MCI, those problems stem almost entirely from a rearguard action by the Baby Bells, whose monopolies on local calls are proving tough to crack. The Act sought to antice the Bells to allow newcomers into their markets by offering the carrot that only then could they offer long-distance calling within their own geographic regions: that, thougb, has proved too weak an inducement.

There is certainly some truth behind this claim. It was a legal challenge by the Bells that bas in effect blocked an FCC order, adopted last August, tbat spelt out the finaucial terms on whicb local carriers had to sell capacity on their exchanges to rival companies, allowing competition to take place.

Almost as important have been the technological and marketing difficulties faced by companies as they try to break into markets dominated by competitors. In the highly charged political atmospbere that bas resulted, it is often impossible to tell whether the obstacles have been erected deliberately or whether they are natural teething problems.

A complaint from all newcomers, for instanca, bas been tbe delay and expense involved in installing tha systems needed to switch customers from a Baby Bell to a new competitor. In response to MCI's complaint last week, the FCC said that it already had a study under way into "the possibility of establisbing performance standards and other requirements" for these electronic systems.

Whatever the root cause of these problems, most Wall Street analysts believe that the difficulties have besn clear for some time – and that MCI and its proposed partner, BT, should have anticipated them.

"If there is anything wrong, it is that there was too much optimism and unrealistic expectations all around, including in Congress," says Ms Anna-Maria Kovacs, an analyst at Janney Montgomery Scott.

Besides greater regulatory scrutiny of whether technological issues are being used as a barrier to competition, two things in the coming months could serve to break the deadlock. Foremost would be a decision from a Federal appeals court on the block that has been put on last August's FCC order. The issue is expected to end up in the Supreme court.

Each step in the legal process, though, brings closer the point when the final outline of the reguletory playing field comes into view. Even if long distance companies do not get all they want, they will at least not face the uncertainty that currently obscures the landecape.

The second possibility is that more regulatory intervention, particularly at the state level, could force competition to take root more quickly. In Connecticut, SNET's stranglehold on the local calling market is under threat from a state-wide ballot, called for early next year, that will require svery resident to choose who they want as their local carrier. Otber states may be far behind, but moves like this suggest that the sort of regulatory action called for by MCI to open up local markets may eventually follow.

Richard Waters

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ICI changes the formula with £1.7bn sale to rival DuPont as it aims for leadership in speciality chemicals

Disposals throw out bad performers

By Roger Taylor

Mr Cbarles Miller Smith, chief executive of Imperial Chemical Industries, yesterday got himself out of a tight corner by announcing the $3bn disposal of two industrial chemicals businesses – titanium dioxide and polyester – one week before the company's interim results.

After repeated analysts' profit downgrades this year, ICI issued a trading statement yesterday accompanying the disposal announcement, whicb said interim profits would be marginally below market expectations at £160m – less than half last year's figure.

Analysts described the figure as awful but ICI can now brusb criticism aside and say that it is all history. The divisions most responsible for the poor result are the ones being sold to DuPont of the US.

The trading figures illustrate why ICI has been so keen to sell its industrial cbemicals businesses and remake itself as a leader in speciality chemicals.

Mr Miller Smith said yesterday the cbemical industry was becoming polarised between the bulk industrial cbemicals companies such as DuPont and the suppliers of higber margin, specialist products. He was clear which side of the divide he wanted to be.

In industrial chemicals, ICI has had to endure savage swings in prices and a big exposure to currency movements. The rising value of the pound cost ICI £90m in the first half, it said in its trading statement. Moving into specialist cbemicals would mean more consistent earnings and reduced currency exposure since products tended to be manufactured and sold locally.

The first part of ICI's transformation was the £4.9bn acquisition of Unilever's speciality chemicals business last week.

The second, and arguably harder, part was selling the industrial chemicals businesses. Industrial chamical prices have been falling for two years and ICI and analysts questioned the company's ability to sell.

The company bas been under pressure to sell because of tha $8.5bn loan funding the Unilever acquisition. It was forced to take the loan on relatively unattractive terms after a credit rating downgrade.

Mr Miller Smith said the day was now close when it would be able to refinance its debt but he accepted that it would not meet its target of maintaining interest cover of three times until next year. Analysts forecast interest cover of between two and three times this year following the disposal, which will be earnings enhancing and rising to four times by 1999.

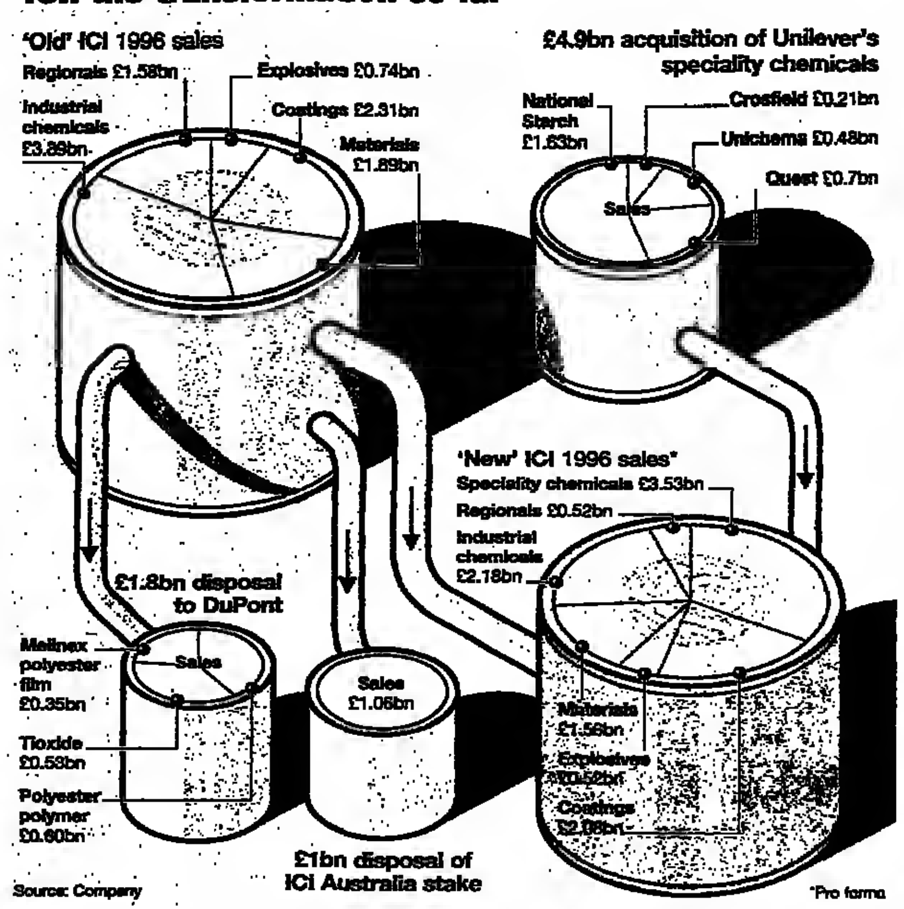
Freeing the balance sheet is vital for ICI's expansion plans. The strategy now, Mr Miller Smith said, was to buy smaller, speciality competitors in whose market there was considerable room for consolidation. In adhesives, for example, wbere ICI will be the second largest company with market leadership for industrial products, it has a market share of just 6 per cent.

ICI has made clear that this will not be the end of its disposal programme. But analysts said it bad sold the best businesses in the division.

The remaining industrial chemicals businesses, with sales of about £2bn, plus the explosives and the regional businesses, with sales of a further £1bn, might raise up to £1.5bn.

However, Mr Miller Smith said the sale to DuPont meant that ICI was no longer a forced seller and could now afford to wait for the best opportunities. The beat is off, for the time being, and ICI can begin to focus on building its new business as much as on selling off the last bits of the old company.

ICI: the transformation so far



Source: Company *Pro forma

Price to pay for low-hassle Tioxide exit

By Ross Tieman

Few thought ICI would find sucb an elegant exit from the tricky business of colouring paints, plastics and paper. But the price of a low-hassle exit may be a bigger write-off than the company had hoped.

Previously, ICI had bravely talked of floating off Tioxide, its titanium dioxide manufacturing business, oext year witb an asset value of £700m ($1.18bn) being the best guide to what it would fetch.

But after ao 18-month slump in the price of titanium dioxide that pusbed many of the world's manufacturers into loss, ICI's operations amoog tbem, persuading investors to buy the business could have been tough going.

Yesterday's agreemeot to sell all the operations outside North America to DuPont provides ICI with a much simpler exit. It was also seen as a clever strategic move by DuPont. The US chemicals group is already the world's biggest titanium dioxide producer, with about 22 per cent of a world market consuming 4m tonnes of the whitener every year.

It has agreed to pay $750m for all of ICI's operations outside North America. In addition, it bas agreed to guaraotee tbat ICI will receive at least $150m for its residual North American business, promising to make up the difference if a lower price is achieved.

In effect DuPont has underwritten ICI's exit for oo less than $900m.

ICI is the world's secood-largest titanium dioxide producer. DuPont is buyiog plants with a total capacity of 535,000 tonnes, divided between sites in tbe UK, France, Spain, Italy, Malaysia and Soutb Africa, wbere it has a joint venture with AECI. In 1996 these plaots recorded a trading loss of £12m, on sales of £533m. The previous year, tbey made profits of £51m.

The deal will give DuPont long-sought maoufacturiog capacity in Europe, as well as additional operations in east Asia, lifting its share of the world market to about 35 per cent.

Such a large market share is certain to attract the interest of the US Federal Trade Commission and the Europeao Commissioo. Mr Charles Miller Smith, chief executive of ICI, said: "There are clearly going to be issues, but we are confident we are going to get through them."

But the risk of regulatory opposition stopped DuPoot buying ICI's US Tioxide assets. These amount to a market sbare of 120,000 tonnes a year, partly met from ICI's share of production at a 100,000 tonne plant in Louisiana, jointly owned by Krooos, a subsidiary of NL Industries of the US. ICI paid $205m for its half of the Kronos plant 4½ years ago.

Overall, the UK cbemicals group now expects a book loss on the sale of its titanium dioxide business of £140m, and to write-off goodwill of £130m.

DuPont still sees money in white pigment

Tracy Corrigan in New York looks at how the acquisition will fit into the US group's global strategy

DnPont, tbe largest cbemicals company in the US, still thinks it can make money in industrial chemicals. Its acquisition yesterday of ICI's white pigment business outside North America and its global polyester business shows how far the strategies of the two chemicals groups have diverged.

"ICI has chosen to move towards the consumer end of the business," said Mr John Krol, DuPont's chief executive. "Our strategy is to take some of our businesses where we have a strong position and low cost base global." He said the restructuring in the past three to four years had left DuPont with "16 to 17 businesses, most of which are very strong globally."

Mr Krol implied that the restructuring of the chemicals business was now complete. He said the group would now focus on the life sciences business which was formed last year from its agricultural products and pharmaceuticals businesses. "It is part of our strategy to strengthen that business. This could include alliances and acquisitions."

DuPont's radical restructuring in the past few years included the sale of under-performing assets, job cuts and plant closures, resulting in savings of $3bn annually in fixed costs.

Businesses sold include printing and publishing, coal, electronics and medical devices. DuPont "has done a good job of streamlining its assets," said Mr Christopher Willis, chemicals analyst at Schroders.

Despite the restructuring, DuPont's business remains broad-based. Conoco, its oil and gas business, is a strong contributor to profits, producing revenues of $25bn, more than half the group's total. The businesses acquired from ICI are, by comparison, expected to realise revenues of about $3.5bn.

There has been widespread speculation among analysts that the oil business could be spun off. Mr Krol said he believed the restructuring had been thorough and he did not foresee any disposals.

But the most significant step of recent years was the 1995 repurchase of Seagram's stake in DuPont. The $8.8bn transaction was "done at an extremely attractive price and had a very positive impact financially," said Mr Willis. "DuPont basically bought back 25 per cent of the stock at a cheap price. It was one of the most successful share buy-backs ever."

The repurchase had the short-term effect of making its balance sheet appear highly leveraged, by reducing the value of shares, but the company enjoys a strong cash flow, and had repaid the debt incurred in 1995 by the start of the year. The ICI acquisition is expected to dilute earnings by less than 1 per cent in 1998 and to boost earnings the following year.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Ashtead	Yr to Apr 30	147.6	(95.9)	28.3	(18.8♠)	16†	(13)	2.93	Oct 8	2.42	3.85	3.07
Cavaghan & Gray	Yr to Mar 31 ☆	134.4	(80.6)	5.21♠	(1.74L♠)	5.42†	(3.89L)	2.7	Oct 3	2.7	3.7	3.7
Ellis & Everard	Yr to Apr 30	645.3	(584.1)	29.6	(25.6)	22.7	(20)	6.7	Oct 6	6.2	10	9.2
Lorien	6 mths to May 31	52.9	(18)	0.889♠	(0.5)	1.15†	(7.1)	2.5	Sept 1	2.5	-	7.5
Partners	Yr to Mar 31	30.7	(27)	2	(1.17)	33.8	(14.8)	-	-	-	-	-
Premier Land	6 mths to Mar 31	5.98	(5.6)	1.93L	(1.08L)	3.23L†	(2.7L)	-	-	-	-	-

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. †On increased capital. ☆Comparatives for 11 months. L loss.

Dollar strength drags down Europe

GOVERNMENT BONDS

By Krishna Guha and Vincent Boland in London and John Labate in New York

European bond markets were dragged downwards yesterday by the strength of the dollar against the D-Mark, which pushed bunds lower. Other markets fell in tandem, with some profit-taking after recent gains in BTPs and gilts.

GERMAN BUNDS fell back after the dollar rose 2 pfennigs to DM1.79, leaving investors nursing currency losses and raising fears that the Bundesbank may raise interest rates to bolster the D-Mark.

The benchmark September futures contract fell 31 basis points to settle in London at 102.67, and continued to fall further in late trading. The 10-year bund yield, which had tested the 5.5 per cent barrier last week, rose to about 5.57 per cent.

December interest rate futures fell by 0.1 to settle at 96.64 at Liffe, implying a 36 basis point tightening by the end of the year.

Bunds took their cue from the currency market. But traders said there was also a "lack of confidence in Germany's ability to reach 3.0 per cent" – the maximum deficit permitted under the Maastricht treaty.

Mr David Brown, chief European economist at Bear Stearns, said the impact was strongest at the front end of the yield curve. Short-dated bunds were "trashed" by fears of German rates rising "sooner rather than later" to curb inflationary pressure from the weak currency.

The 10-year bund spread over two-year bunds narrowed to 196 basis points. Some analysts said the yield curve could flatten further, to about 175 basis points.

However, others said that volumes were light, and most real money accounts remained on the sidelines.

Mr Mark Fox, chief European strategist at Lehman Brothers, said the dollar had risen by only 4 pfennigs since July 4 – a "significant move, but not an enormous one".

ITALIAN BTPs tracked the German bond and currency markets lower, with the September futures contract closing 0.49 down at 136.29. Talks on reform of the country's pension system, seen as an important part of Italy's attempts at "structural convergence" ahead of European monetary union, resume today.

Analysts said the outcome would be a crucial pointer for bond markets, and the talks are set to run into negotiations on the 1998 budget with a lot of political horse-trading.

The FRENCH BOND market, which was closed yesterday for the Bastille Day holiday, is expected to open lower today.

UK GILTS surrendered the strong gains of Friday, falling sharply in spite of benign producer price inflation figures, which showed output prices fell by 0.2 per cent in June – the biggest monthly fall in a year.

The benchmark September gilts futures contract fell $\frac{21}{32}$ to settle in London at $114\frac{1}{16}$. The 10-year gilt spread over German bunds widened 3 basis points to 164 points as investors concentrated on the risk of higher interest rates to curb consumer spending.

Analysts said gilts offered "excellent relative value". The market was being buffeted by supply considerations – rising on Friday on news that there would be no third-quarter issue of 10-year gilts and falling yesterday in anticipation of a forthcoming issue of popular 21-year gilts.

Trading in IRISH GILTS was quiet, with analysts pointing to a lack of new paper. Redemptions are running far head of new issues and the government's comfortable budget position means that it does not need to tap the market.

The strength of the punt, and uncertainty about where it will settle against the D-mArk and sterling, kept foreign investors at bay. But Mr Oliver Mangan, at AIB Group Treasury in Dublin, said investors in the market are sitting tight, and domestic buyers are ready to snap up any new paper.

US TREASURIES edged lower in very light morning trade volume. By mid-afternoon the benchmark 30-year Treasury bond had slipped $\frac{3}{32}$ to $101\frac{3}{32}$, sending the yield higher to 6.581 per cent.

In shorter-term trading, the two-year bill fell $\frac{1}{32}$ to $101\frac{3}{32}$, yielding 5.878 per cent, while the 10-year bond was down $\frac{3}{32}$ to $102\frac{11}{32}$, yielding 6.224 per cent.

An early-morning release by the Atlanta Federal Reserve had little impact on the market, despite a strong growth component.

Analysts are now more concerned with price data than economic growth, as they have become used to solid growth figures without strong upticks in inflation.

The Treasury market opened lower after overnight selling in the Middle East.

The dollar strengthened against European currencies. "There's a safe haven in the US market and Treasuries are holding," said Mr Richard Gilbooly, international bond strategist at Paribas Capital Markets in New York.

Tuesday will mark the beginning of what could be a more volatile period with the release of important economic reports, beginning with June retail sales. One survey of economists predicts retail sales will be unchanged for the month.

On Wednesday, the consumer price index for June, industrial production, and capacity utilisation reports will also be issued. Soon after, housing starts for June will also be released.

Brazil launches debut sterling 10-year offer

INTERNATIONAL BONDS

By Edward Luce

Brazil topped the bill on an otherwise lacklustre day with its first sterling denominated offering. The £150m 10-year bond, Brazil's fifth in a European currency to date, was priced to yield 275 basis points over 10-year gilts. Brazil had earlier postponed the deal after the Bank of England raised interest rates by 25 basis points last week.

Worries over the trajectory of the UK market had clearly subsided by yesterday and syndicate officials reported a steady opening session.

"Brazil has prepared the ground quite carefully in the UK so it was not a bolt out of the blue," said a banker at BZW, joint book-runner with Credit Suisse First Boston. About 60 per cent of the paper went to UK institutions, with demand reported from Switzerland, the middle east and offshore US accounts.

Officials said the paper was trading flat to its re-offer price in the secondary market yesterday. Brazil becomes the third Latin American borrower to tap the sterling market after Mexico and Argentina. The UK market is considered one of the most difficult for emerging market borrowers owing to the conservative outlook of many UK institutions. Argentina's 10-year bond was issued at 280 basis points over gilts and has since tightened by about five basis points.

Elsewhere, GENERAL MOTORS followed Denmark, KfW and the European Investment Bank by choosing to issue D-Marks in a six-year maturity. The DM250m issue was priced to yield 32 basis points over bunds.

"Investors are moving down the credit curve and up the maturity curve to get more yield, so this was just what they were looking for," said an official at BZW, joint book with Deutsche Bank.

ESKOM, South Africa's state-owned electricity utility, became the first South African entity to issue at a cheaper cost than its sovereign with a R6bn zero-coupon bond. "The accrued cost of the offering came under the South African yield curve," said an official at DMB, joint book with Toronto Dominion.

The paper was issued at just 2.45 per cent of its face value. "This sort of offering is good for investors who are positive on South African interest rates but don't want the full currency exposure," said the official.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
■ US DOLLARS							
Norddeutsche Landesbank	200	6.00	99.50R	Aug 2000	0.1875R	+6(6¾%May00)	Bear Stearns/NordLB
Aker RGI(a)§	150	(a1)	100.00	Jul 2002	2.50	-	Lehman Brothers Intl
Ascot Capital(b)*‡	100	(b1)	100.011	Jul 1998	0.05	-	Barclays de Zoete Wedd
■ D-MARKS							
GMAC of Canada(s)	250	5.125	99.63R	Dec 2003	0.325R	+32(6%Sep03)	BZW Deutschland
■ STERLING							
Federative Rep of Brazil	150	10.00	99.838R	Jul 2007	0.75R	+275(7¼%-07)	BZW/CSFB
■ SWISS FRANCS							
Bayerische Landesbank	150	2.50	101.75	Aug 2002	2.00	-	UBS
■ LUXEMBOURG FRANCS							
CLT UFA(l)	2.5bn	5.125	102.50	Dec 2002	1.875	-	BIL/Credit Européen
■ SOUTH AFRICAN RAND							
Eskom	6bn	zero	2.45R	Aug 2027	0.125R	-	Deutsche/Toronto Dom

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. *Unlisted. § Convertible. ‡ Floating-rate note. R: fixed re-offer price; fees shown at re-offer level. a) Fixing on Thursday. Exchangeable into ord shares of Aker Maritime at indicated premium of 18–22%. Callable from July 00 at par. a1) 4¾–5¼%. b) 3-mth Libor –10bp. l) Long 1st coupon. s) Short 1st coupon

CAPITAL MARKETS NEWS DIGEST

Bouygues funds telephone network

A FFr15bn loan for Bouygues Télécom, part of the French construction group Bouygues, has gone into general syndication. The proceeds will finance the construction and development of Bouygues' telephone network. The company is France's third largest mobile telephone operator, after France Telecom, the state-owned company, and SFR, part of the Compagnie Générale des Eaux group.

Just over a year after the launch of its network, Bouygues Télécom claims to have more than 200,000 subscribers to its DCS 1800 service, a system that is less widely used than the international GSM standard. Earlier this month the company started offering its services in the Normandy region, in addition to existing services in the Paris, Rhône-Alpes and Côte d'Azur regions.

Banque Nationale de Paris, ABN Amro, J.P. Morgan and Westdeutsche Landesbank are arranging the 10-year loan. Ten other banks are participating as co-arrangers.

Samer Iskandar, Paris

■ EUROPEAN MONETARY UNION

UK 'less likely' to join

The chance of the UK joining European monetary union in the first wave has fallen sharply, according to the bond markets. The J.P. Morgan Emu calculator, which estimates the probability of a country joining Emu by examining the spread between government bond yields, puts the likelihood at only 0.23 per cent – down from 0.39 per cent 20 days ago.

UK bonds have missed out altogether on the latest phase of Emu convergence, which brought the spread on 10-year Italian BTPs down to a new intra-day record low of 88 basis points over bunds yesterday. Ten-year gilts now yield 164 basis points over bunds. Analysts say the recent "extraordinary" strength of sterling and the prospect of sharply rising interest rates all but rule out participation in Emu in 1999.

Krishna Guha, London

■ FIRST-HALF FUNDRAISING

M&A surge fuels boom

Some $1,146bn was raised on the international capital markets in the first half of 1997 through bond and equity issues and syndicated loans, according to figures published by International Financing Review, a trade publication. The boom was fuelled by a surge in mergers and acquisitions activity, cross-border deals, and asset rationalisation as companies restructured to become more global and competitive. It coincides with record highs on the world's main stock markets on the back of confidence about the health of the global economy.

Syndicated loans accounted for over half the total, with $635bn raised. Bond issuers raised $461bn and equity issuers $50bn. Western Europe and the US led the way in the volume of issuers, but emerging markets saw record activity.

Vincent Boland, London

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

	Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia	10.000	10/07	124.4195	+0.160	6.67	6.79	7.35
Austria	5.750	04/07	100.0000	-0.320	6.75	5.71	5.85
Belgium	6.250	03/07	104.2800	-0.330	5.66	5.62	5.91
Canada *	7.250	06/07	109.1900	-0.200	6.00	6.02	6.51
Denmark	7.000	06/07	108.6800	-0.260	6.11	6.13	6.30
[illegible]							

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	CALLS Aug	Sep	Oct	Dec	PUTS Aug	Sep	Oct	Dec
10250	0.42	0.74	0.57	0.91	0.25	0.57	1.32	1.66
10300	0.18	0.48	0.39	0.72	0.51	0.81	1.64	1.97
10350	0.06	0.28	0.28	0.55	0.88	1.12	2.01	2.30

Est. vol. total, Calls 10320 Puts 28042. Previous day's open int., Calls 181440 Puts 225661

FTSE Actuaries Govt. Securities

Price Indices UK Gilts	Mon Jul 14	Day's change %	Fri Jul 11	Accrued interest	xd adj. ytd
1 Up to 5 years (20)	119.39	-0.09	119.49	2.17	6.01
2 5-15 years (20)	151.63	-0.44	152.30	1.87	6.98
3 Over 15 years (6)	181.91	-0.79	183.35	8.37	5.02
4 Irredeemables (5)	210.93	-0.89	212.82	2.73	7.34
[illegible]					

UK Indices

	Low coupon yield Jul 14	Jul 11	Yr. ago	Medium coupon yield Jul 14	Jul 11	Yr. ago	High coupon yield Jul 14	Jul 11	Yr ago
5 yrs	7.14	7.07	7.31	7.19	7.13	7.36	7.26	7.20	7.43
15 yrs	7.08	7.00	8.13	7.11	7.03	8.13	7.18	7.11	8.23
20 yrs	7.08	7.00	8.24	7.08	6.99	8.22	7.17	7.10	8.30
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FT Fixed Interest Indices

Gilt Edged Activity Indices

US INTEREST RATES

BOND FUTURES AND OPTIONS

France

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UK GILTS PRICES

Other Fixed Interest

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Japan

Official deregulation is just one symptom of a wider, spontaneous acceptance of market forces. Old business alliances are being reviewed in a harsher, more market-oriented light, writes **William Dawkins**

Market forces are allowed to advance

Change is hard to spot in Japan because it tends to happen incrementally, without great fanfare.

But to many peopla's surprise, not least that of the Japanese tbemselves, there bave been significant changes this year. Market forces have been allowed to advance into several hitherto protected sectors of the most tightly controlled economy in the developed world.

The archetypal Japanese convention that the broad interests of society come before market efficiency and the interests of individuals has been thrown open for reassessment. In several important areas, such as financial services, transport, and energy, it has even begun to break down, with potentially wide-ranging consequences.

All this comes, curiously, with an enthusiastic shove from tha Liberal Democratic party government, formerly conservative by instinct and tradition. The administration of Mr Ryutaro Hashimoto was wrongly seen by many as a symbol of return to the old system when it took office last October. It appeared to mark the end of a four-year political struggle between advocates of a "new Japan" and the scions of the old system, based on defending, not challenging, vested interests.

Instead, Mr Hashimoto has adopted the deregulation policies of his political opponents and carried them out witb unexpected energy. This is in line with the LDP's tradition of occupying tbe opposition's territory, but it has also brought the ruling party on to genuinely new ground.

Foreign attention has focused on the government's 2,800-point deregulation programme which includes the so-called "Big Bang" proposals to make financial markets as efficient and competitive as London or New York by 2001.

A gauge of how real is the Big Bang plan is the speed with which parliament agreed in April to abandon exchange controls from next year. Theoretically, this makes more sweeping deregulation inevitable – as it was in the UK after the abandonment of exchange controls in 1979 – because it leaves the authorities with no means to stop financial business leaving Tokyo in search of cheaper markets abroad.

The only option now is to bring Tokyo market costs and efficiency to the same level as its best competitors. In defiance of cynics, the government has adopted a rigorous timetable intended to bring this about.

Finance is not the only sector where Japan is undergoing a culture change. In energy, for example, the end of a cartel on oil imports last year has since caused petrol prices to fall by a fifth, forcing a collapse in domestic oil refiners' profits. In transport, permission was granted last October for the formation of four new domestic airlines, the first in 46 years, to operate on the world's busiest route, from Tokyo to Sapporo.

In telecommunications, Nippon Telegraph and Telepbone, the dominant carrier, is to be split, along US lines, between a long-distance and international group and two local operators by 1999. It bas been obliged to open domestic lines to foreign companies.

But official deregulation is just a symptom of a wider, spontaneous acceptance of market forces. Equity investors, for example, have, over the past nine months or so, begun to recognise that it is no longer realistic to value companies on the basis of their membership of a group or sector. Share prices no longer move in predictable bands between and within sectors, as they once did, on the assumption that stronger companies would always bail out weaker brethren.

Elsewhere, old business alliances are being reviewed in a harsher, more market-oriented, light. Cracks have opened in the *keiretsu* system of corporate families, loose alliances between suppliers, manufacturers, distributors and banks linked by dozens of cross-shareholdings and an unspoken preference to do business with each other. Now, it is no longer heresy for a *keiretsu* member to buy supplies outside the group, or to borrow from an unrelated bank.

Why are all these changes happening only now, more than a decade after the US and much of Europe underwent their own version of economic deregulation?

One answer is that policy debate has always taken a long time to become action in Japan. Many of the reforms now occurring have been under consideration by various government panels for years. Deregulation was tha rallying call of the two unstable coalitions which ruled when the LDP was forced into opposition for the first time in its life for nearly a year until mid-1994, as it was for all leading parties in last autumn's general election.

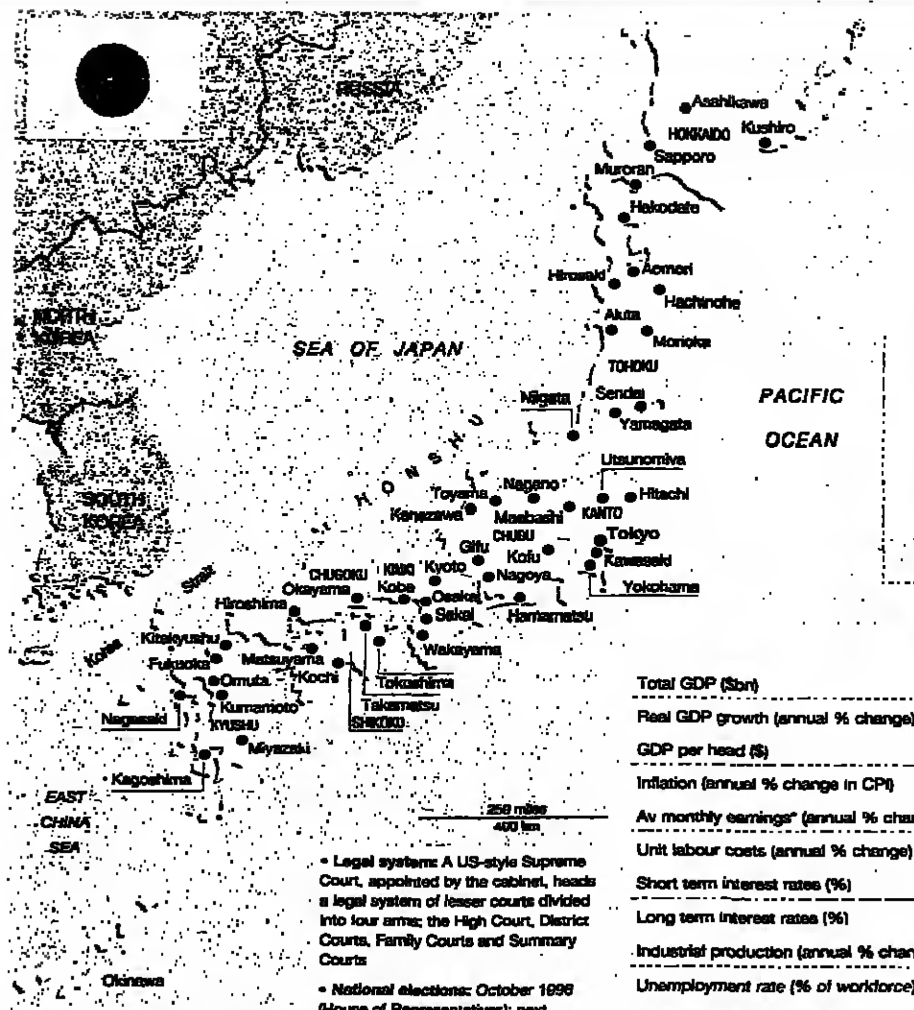
Another factor is the moderate strength of the economy. After the longest slowdown since the 1930s, Japan's gross domestic product grew by 3.6 per cent last calendar year, the best performance in the Group of Seven. Growth in the first quarter of this year was a solid 2.5 per cent over the same period last year.

Unemployment, while high by Japanese standards at 3.3 per cent, is still far from being a social problem. Meanwhile, manufacturers' pre-tax profits rose by a healthy 20 per cent in the year to March, a tribute to the efficiency gains made under pressure of the recession, but also helped by the impact of a weak yen on their foreign competitiveness.

In consequence, policy makers and businessmen feel that the economy is just about robust enough to cope with the short-term pains – a rise in bankruptcies and possibly unemployment – that go with greater competition.

The exception that proves the rule, of course, are the weaker financial institutions, still burdened with bad debts inherited from the rush of irresponsible lending during the late 1980s asset price bubble. They are ill-

Continued on Page II



■ **Area:** 377,812 sq km
■ **Population:** 126.2 million (1997 est)
■ **Language:** Japanese
■ **Main cities and population** (1995)

Tokyo (capital)	8,000,000
Yokohama	3,300,000
Osaka	2,600,000
Nagoya	2,200,000

■ **Currency:** Yen
■ **Exchange rate:** 1996 average $1 = Y108.78; July 2 1997 $1 = Y114.415

Sources: EIU, OECD

Constitution

• **Legal system:** A US-style Supreme Court, appointed by the cabinet, heads a legal system of lesser courts divided into four arms: the High Court, District Courts, Family Courts and Summary Courts
• **Form of government:** Representative democracy
• **The executive:** The prime minister, currently Ryutaro Hashimoto, is chosen from a ballot of the Diet and appoints a cabinet, a majority of whose members must also be members of the Diet
• **Head of state:** Emperor Akihito
• **National legislature:** Bicameral Diet (parliament); comprising the 500-member House of Representatives, elected every four years, and the 252-member House of Councillors, elected for six-year terms, with half of its number elected every three years. Under 1994 legislation, there are 300 single-seat constituencies and 200 seats filled by proportional representation in the House of Representatives
• **National elections:** October 1996 (House of Representatives); next national elections due by 2000 (House of Representatives) and by 1998 (half of House of Councillors)
• **National government:** The ruling Liberal Democratic party (LDP) holds 244 seats in the 500-seat House of Representatives compared to 141 seats for Shinshinto, the largest opposition party; a new cabinet was installed in November 1996
• **Main political organisations:** GOVERNMENT - loose coalition of three parties: Liberal Democratic party (LDP); Social Democratic party (SDP); Shinto Sakigake (New Party Harbinger) OPPOSITION - Shinshinto (New Frontier party); Japan Communist party (JCP); Minshuto (Democratic party of Japan)

Economic summary

	1996	1997 Forecast	1998 Forecast
Total GDP ($bn)	4,564	4,518	5,034
Real GDP growth (annual % change)	3.6	2.3	2.9
GDP per head ($)	36,263	35,779	36,766
Inflation (annual % change in CPI)	0.1	1.1	1.0
Av monthly earnings* (annual % change)	2.7	2.9	2.5
Unit labour costs (annual % change)	-1.5	0.9	0.1
Short term interest rates (%)	0.6	0.7	1.2
Long term interest rates (%)	3.1	2.6	2.9
Industrial production (annual % change)	2.6	1.5	2.5
Unemployment rate (% of workforce)	3.4	3.2	3.1
Reserves excluding gold ($bn)	216.6	218.7 (April)	n/a
Government budget deficit (% of GDP)	4.4	3.1	2.3
Current account balance ($bn)	65.8	79.8	96.4
Merchandise exports ($bn)	399.8	403.0	448.0
Merchandise imports ($bn)	316.1	310.0	338.0
Trade balance ($bn)	83.6	93.0	110.0

Main trading partners (share of total trade to world, 1996)

Exports		Imports
27.2%	US	22.7%
7.1%	S.Korea	4.6%
6.3%	Taiwan	4.3%
5.3%	China	11.6%

* Manufacturing

IN THIS SURVEY

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● **Education:** A cautious, step-by-step approach to the reform process has been adopted
● **Survival guide:** Tips for visitors on where to find the best sushi, shops, massages, luggage collection – and tranquility
● **Information technology:** Industries are racing to adopt advanced IT – but will the investment pay off? **Page V**

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THE ECONOMY • by Gillian Tett

Short-term confidence and long-term worries

The growth rate is far lower than is needed to tackle the problems of an ageing population

Take a look at Japan's recent economic statistics, and you might think Japan is basking in bealthy growth: last year the economy expanded by 3.6 per cent – the highest rate in the G7. But glance st consumer confidence surveys instead, and you might suspect it was in recession: 55 per cent of the population apparently now thinks Japan's economic outlook is "bleak": the highest figure on record.

The paradox reveals s broader dilemms. For though Jspan now appears to be on the brink of a long, benign recovery, it is having to adjust to a growth rate far slower than that seen during the heady 1980s. And this in turn is provoking a flood of anxiety about whether the country will be equipped to cope with the economic consequences of its maturing economy – and, in particular, an ageing population. As one senior government official says: "The short-term economic outlook for Japan is not bad. It is the longer term picture that is the issue now."

The short-term picture is certainly encouraging. After a fragile recovery in 1995, the economy has since been growing steadily, notching up a year-on-year expansion rate of 2.5 per cent in the first quarter on 1997.

Growth this year is expected to be slower than last due to a controversial decision to raise the consumption tax from 3 per cent to 5 per cent at the start of April. Economists at the Long Term Credit Bank of Jspan calculate this, coupled with other income tax changes, will remove some Y2,800bn worth of personal consumption from the economy this year, or about 0.6 per cent of gross domestic product.

But although some economists feared this fiscal tightening might seriously derail recovery, this does not appear to have happened. Firm evidence sbout the impact of this will not emerge until later this summer, when second-quarter data on GDP is released.

But early signals are encouraging. Consumption has fallen: department store sales in May, for example, were 5.1 per cent lower than a year earlier. However, this came after abnormally strong sales before the tax.

Meanwhile, the Bank of Japan's suthoritative June "Tankan" survey of business confidence was relatively upbeat: although non-manufscturing companies remained gloomy, manufacturers actually became more optimistic after the tax rise.

This relatively cheerful picture still owes much to overseas demand. In particular, exporters have been seeing sharply rising sales on the back of recent currency movements: after soaring to a high of Y79.95 against the dollar in 1995, the yen then fell to a low of Y127 at the end of April this year.

In May, for example, Japan's trade surplus more than tripled compared to a year earlier, with a 20.5 per cent rise in exports, and a 43.3 per cent surge in foreign car sales.

However, most economists now think that consumption will rebound in Japan later this year, leading to a more balanced recovery. And there seems little serious risk that inflation could mar the picture: although consumer price inflation was 1.9 per cent in June, this was almost entirely due to the impact of the consumption tax increase.

Meanwhile, the Bank of Jspan appears to be taking a relaxed stance. Speculation erupted in early June that the Bank might soon raise rates from their current historically low levels of 0.5 per cent. However, this has since faded: whereas in May futures markets were predicting interest rates of 1.5 per cent in spring 1998, they now expect rates of only 1 per cent. These trends leave most economists forecasting growth of around 2 per cent this year, and rather higher next – a relatively benign picture in comparison to the G7 longer term trend.

But the problem is that the growth rate is markedly lower than Japan has experienced in earlier decades, and arguably far less than it needs to tackle its longer-term problems of an ageing population.

Japan currently has the fastest ageing profile of any leading economy. But its pension system is woefully underfunded. Consequently, tha Organisation for Economic Co-operation and Development calculates that without radical action the pension burden will push the national debt from the present 10 per cent of GDP to nearly three times GDP in 2030.

The government is trying to tackle this with pension reform. But what is really needed is for Japan to raise its productivity, or the output of GDP per worker. GDP per worker has been growing at an annual rate of 1.4 per cent this decade, according to calculations by Merrill Lynch, compared with 1.8 per cent in the 1980s and 2.3 per cent in the 1970s.

Some economists see signs of improvement. Mr Kenneth Courtis, chief economist at the Deutsche Bank group in Asia, for example, auspects that the recession in the early 1990s has left some manufacturers in better shape than ever before. "There has been s shake-out – the survivors are now on a roll," he says.

But since manufacturing now accounts for a mere 24 per cent of GDP, compared with 35 per cent in the 1970s, the key to productivity growth will lie – as with most mature economies – with Japan's service sector.

The government recognises this: over the past year it has unveiled a host of deregulation plans which aim to introduce more competition into previously protected areas. It calculates that these could push the annual GDP growth rate up to 3 per cent between 1996 and 2000, compared to a projected growth rate as low as 1.75 per cent without the reforms.

The changes could be a painful jolt for Japanese companies and their workers. It may be some time yet before the Japanese opinion polls start to look truly cheerful about their country's longer-tarm economic future.

CRISIS AT THE FINANCE MINISTRY • by Charles Smith

Empire may be starting to shrink

Concessions by bureaucrats may continue, both to silence critics and aid development

What a difference a year can make – even among the elite bureaucrats of Kasumigaseki, Japan's Whitehall. The powerful Ministry of Finance (MoF), which seemed to be facing dismemberment at one point in the summer of 1996 as a punishment for its role in the bungled liquidation of seven insolvent housing loan companies – the "jusen" – now seems to have recovered its poise, along with the tendency to issue directives to other central government agencies and even, occasionally, to the cabinet.

Insiders say, however, that there have been important changes in the way the MoF operates, not all of them necessarily related to the jusen affair and its aftermath. Many of the changes seem designed to meet public criticisms that the MoF has been unnecessarily secretive in the past. Officials have also been at pains to answer charges that the ministry has been amsteurish in its economic management, particularly after the bursting of the "ssset bubble" in 1990-91, when it underestimated the impact of collapsing real estate prices on the banking sector.

The new MoF which emerged from the 1996 upbesvals is expected to focus on policy making, ratber than on "gyosei shido" (administrative guidance) – s euphemism for direct intervention by bureaucrats in the decision-making processes of private companies. One result of the new approach has been an attempt to introduce greater transparency into the way the MoF responds to periodic liquidity problems in the banking sector; officials claim that they will no longer attempt to keep weaker banks in business by arranging support operations that require a subsidy by stronger institutions under the so-called "convoy system".

In tha field of macro-economic policy, the MoF retains full responsibility for budget making and tax policy as well as for management of the national debt through its finance bureau. A senior official attached to the Ministers Secretariat, however, recently conceded that there might have been conflicts in the past between the MoF's fiscal responsibilities and its unofficial role as an adviser to the Bank of Japan on interest rate policy. The MoF will try to stay clear of monetary policy issues in future, the official said, even when the government feels that interest adjustments may be needed to smooth exchange rate fluctuations, or offset the deflationary effects of budget cuts.

While much of the new talk coming out of the ministry may be designed to reassure critics, two important legislative measures should help to lock in the changes. On June 11, the Diet (parliament) approved changes to the Bank of Japan Law whicb removed the MoF's power to hire and fire senior central bank executives. Tha revised law slso gives greater independence to the Bank of Japan's Policy Board, a nine-man body which makes the final decision on changes to Official Discount Rate. Under the new system, Policy Board decisions will be put to the vote, instead of being unanimous, and minutes of meetings will be published.

The Ministry of Finance will be allowed to observe meetings, and retains tbe right to request postponement of interest changes, but sources close to the bank say that in practice the ministry is unlikely to be able to override decisions made by the Policy Board. One effect of the new system could be to increase the weight of domestic factors such as inflation in the Bank of Japan's interest rate policy, while reducing that of external factors such as exchange rates.

A second important measure, adopted by parliament on June 16, provided for the establishment of a new supervisory agency, the Kinyu Kantokucho, which will relieve the MoF of the day-to-day business of inspecting and regulating banks, securities companies and non-bank financial institutions. The new agency will be answerable to the Prime Minister's Office, not to the MoF, and should thus be more independent than the Securities Exchange Commission (SEC), a body set up in 1992 within the MoF "family" to supervise the securities industry.

Senior MoF officisls opposed hiving off the ministry's snpervisory functions when the idea was first mooted in 1996 by a study group made up of MPs from tha three parties supporting the Hashimoto cabinet. Now that the agency exists as a legal entity (though not yet as a functioning body) the MoF says it is "natural" to divida responsibility for policy making from inspection and supervision of banks. The ministry cites precedents in the US, Germany and France for the separation of the two functions.

Sceptics note that tbe Kinyu Kantokucho will have to rely beavily on staff transferred from the MoF's banking bureau. On the other hand, the head of the new agency is likely to plcked from outside the ministry. This is important, say analysts, because the person chosen will have the right to order the closure of insolvent banks – until recently a vital weapon in MoF's armoury of controls over the financial sector.

While the MoF empire may be starting to shrink, there are signs the ministry is still badly over-stretched.

The official line from the MoF is that the time may have come to start training specialists in sectors such as insurance or securities instead of rotating administrative level officials around in many different departments. The shift towards a more specialised personnel policy could reduce the ministry's political influence. But that may be only part of the price for keeping abreast of the increasingly rapid changes in Japan's economy.

FINANCE • by Gillian Tett

Reform plans gather pace

Restructuring will be crucial if the financial system as a whole is to flourish again

When Mr Ryutaro Hashimoto, Japan's prime minister, declared last November that he would deregulate the country's protected financial sector before 2001, some observers might have felt a sense of déjà vu.

In recent years Japan's leaders have often made grandiose pledges of reform – only to quietly shelve them later. Eight months lster, though, cynics have reason to rethink.

For as the reform proposals gather pace, under the catchy label of Japan's "Big Bang", a palpable sense of change is afoot in Tokyo's financial world.

There is one sign of this at the Ministry of Finance, where senior officials are now extolling their new commitment to free financial markets – and their determination to make Tokyo globally competitive again.

Another can be seen in the befty pile of documents that the government produced in June setting out a complex timetable for "Big Bang". This starts with the abolition of foreign exchange controls as early as next April.

However, one of the most striking hints of change is coming from Japan's vast and hitherto sleepy financial industry itself.

The prospect of deregulation is already prompting speculation about imminent restructuring – and leaving some banks and brokers scrambling to improve their relative positions with unusual competitive zeal.

This change is undoubtedly long overdue. For the financial system now operating in Japan is essentially little different from the system established after the second world war.

This system was set up around the national goal of channeling the country's savings to industry. Consequently, different financial services were performed by different types of institutions who were not allowed to compete with each other: the "long-term credit banks", for example, provided longer term financing, while "city" banks concentrated on sbort-term banking.

Banks and industry were tightly intertwined: banks' customers and the banks themselves usually owned shares in each other.

Innovation and competition in the system were stifled by a practice where new products had to be approved by the government – usually on a case-by-case basis.

This psttern served Jspanese industry well. Bnt it left tbe banks uncompetitive and tbe financial system dogged by excess capacity. And the cost of this became painfully clear earlier this decade, when it emerged that many banks hsd lent heavily to the property market in the late 1980s – and were consequently left with huge bad debts when the property market collapsed.

This debacle is still not over. Bad debts in the banks are now on s downward trend: the financial sector's bad loans between March 1996 and 1997 fell from Y34,799bn to Y27,900bn. But the scale of write-offs still needed remains huge.

One regional bank, Hyogo, has already failed. Other regional groups are still fragile. Although the government has pledged to protect the 20 largest banks, it has only staved off financial problems at two – Nippon Credit Bank and Hokkaido Takusboku – by restructuring plans.

Given this bsckground, starting "Big Bang" now is a distinctly risky step. But the initiative has been given a new urgency for two distinct reasons.

The first is that Tokyo has been losing share to other financial centres in recent years, because of the tight regulations and high cost of doing business in Japan: one third of trading in Nikkei 225 stock futures, for example, is now condncted in Singapore. Consequently, without rapid action it could soon lose any claim to be a main global financial centre.

But the second trigger is that the Japanese population is ageing rapidly and needs to find good ways of investing its Y1,200 trillion savings to prepare for the future.

The present system, which was set up to benefit companies, not consumers, does not provide this. And the weakness of the pension industry was graphically illustrated in April when the Nissan Mutual life insurance group became the first life insurer to collapse for 50 years.

These two factors have left government officials arguing that what is needed is not just the type of stockbroking reforms that were at the heart of the British Big Bang – but a far broader reform that aims to bring Japan's financial system more into line with that in Anglo-Saxon countries. The timetable of the changes they have proposed to achieve this ambitious goal is bewildering, spanning the next five years. But the key ones include:

- Lifting the current barriers between banks, securities houses and other financial institutions to spur greater competition;
- Removing bans on innovative financial products such as derivatives;
- Halting cartel-like behaviour, such as the use of fixed stockbroking commissions;
- Removing foreign exchange controls;
- Removing restrictions that determine where corporate pension fund money needs to be invested; and
- Encouraging financial industry restructuring by allowing companies to establish holding companies.

Whether these reforms will actually deliver as much as they promise – let alone make Tokyo globally competitive again – remains unclear.

There are still some big gaps in the reform proposals: key issues on taxation, for example, have yet to be addressed. Japan does not yet have the type of legal snd accounting infrastructure that could let free markets flourish. And past experience suggests that bureaucrats could yet find a way to slow the pace of change – if they wish.

But what is already clear is that these reforms will leave the Japanese banks and brokers under mounting pressure, particularly since their foreign competitors are jostling to expand their presence in Japan as well.

The biggest and healthiest groups are already trying to respond: the Bank of Tokyo Mitsubishi, for example, is trying to reduce its risk-weighted assets to improve its financial strength; Sanwa is introducing innovative new telephone services to attract retail clients; Shizuoka, a regional bank, is considering a share buy to make itself more attractive to investors.

However, the gap between the strongest and weakest is widening. Government officials, for example, concede that it is unlikely that all of the country's 200 small brokerages will survive.

Some Japanese bankers suspect that the number of leading banks could be halved in the next 10 years.

Restructuring of this sort will be crucial if the financial system as a whole is to flourish again. But it could also be very painful.

Either way, the next year in Japan's financial sector promises to be a truly fascinating one.

Market forces are allowed to advance

Continued from Page 1

equipped to face full competition. But, as one stockbroker points out, the alternative to radical deregulation is worse; the long-term decline of the Tokyo markets, with the wider economic damage that implies.

At the same time, however, the changes in Japan over the past year should not be exaggerated. Some features of the traditional, inward-looking, system are still strong, for better or worse.

Foreigners are not always welcome in some of the more conservative industries, as Mr Rupert Murdoch, the Australian media magnate, discovered when he had to sell s stake in TV Asahi only nine months after buying it.

But s few months later, he found a new partner, Fuji TV, which bought s stake in Mr Murdoch's Japanese digital television joint venture.

Faction politics, the foundation of the defence of vested interests, are still dominant, in that faction bosses bave the power to share out cabinet jobs.

Then again, there are signs of strain in the biggest LDP factions as followers begin to demonstrate s measure of independence from faction bosses.

The current scandal surrounding questionable payments by Nomura Securities, Japan's largest stockbroker, and Dai-Ichi Kangyo Bank, the leading commercial bank, to gangsters, recalls a similar wave of corruption scandals seven years ago.

This message is that, at some companies, corporate governance, a vital feature of an efficient market, remains undeveloped.

The durability of those remaining bulwarks against market forces invites what may be the biggest question facing Japan over the next few years.

That is, to what extent can it embrace the market forces needed to enable its companies to compete in an increasingly international world, while at tha same time retaining valued traditional features such as low unemployment and social stability?

Many Japanese hope that change can come with a minimum of pain. But governments in the west have long become used to surrendering significant economic sovereignty to the markets, with uncontrollable consequences.

It is getting harder for modern Japan to be as different from the west as it used to be.

POLITICS • by William Dawkins

Significant evidence of changes

Hashimoto: expected to influence the finance ministry to allocate a generous budget for health care in his home town Picture: AP

The old structure has partially collapsed, but a new one has yet to take shape

After four years of political upheaval, the Liberal Democratic party is consolidating its grip on power, almost – and yet not quite – as if nothing had changed.

On the surface, Japanese politics looks as if it has returned to the stable situation which was startlingly interrupted in the summer of 1993 when the LDP was thrown out of power after nearly four decades of rule.

Two optimistic but wobbly coalitions followed, led by politicians devoted to changing the face of Japan and to making government more responsive to the needs of consumers.

The aim, to foreign trade partners' delight, was to dismantle the cabal of business, bureaucracy and LDP faction bosses which engineered Japan's post-war economic expansion, bnt commanded decreasing respect among its own electorate. The LDP in particular was making itself increasingly unpopular witb a series of corruption scandals, which emphasised the gap between power brokers and average citizens, just at the time when the citizens were feeling the onset of wbat hecame the worst recession in 60 years.

But the newcomers were weakened by inexperience and internal bickering among their disparate coalitions. Tbus, a cbastened LDP returned in mid-1994, in an extraordinary alliance with its traditional enemy, the left-wing Social Democratic party. Last autumn's general election enabled the LDP to form a minority government under Mr Ryutaro Hashimoto, prime minister. Against it stands a fragmented and disorganised opposition. So much for the new Japan.

And yet, heneatb the appearance of having turned full circle, Japanese politics bas undergone significant change during the LDP's fall and recovery. The old LDP faction structure, mucb criticised for dominating policy with little regard to the electorate's aspirations, bas become slightly more open and a younger generation is beginning to assert itself.

Evidence of these changes is visible in a number of subtle differences in the way in which politicians operate. First, money. Faction leaders' ability to extract cash from companies and doie it out to their minions was the main instrument of political power for much of the post-war period. While good for stability, this stifled political debate and opened the way to corruption on a spectacular scale. The system started to demonstrate its imperfections when Mr Kakuei Tanaka, the late former prime minister and master of money politics, nearly landed in prison for accepting bribes, only escaping sentence by dying in 1993.

A year later, new curbs on political funding took effect in an attempt to purify politics. To compensate, political parties were entitled to a state subsidy. More than half of tbe leading parties' funds now come, for the first time, from the state. Significantly, that cash goes to party headquarters, rather than to faction bosses.

Second, electoral rules. Japan used to bave a unique multi-seat constituency system. One district would return up to six members of parbament, several of whicb would come from different factions of the LDP. Three years ago, the system was changed to a continental European-style mixture of aingle-seat constituencies and proportional representation. The norm now is for the LDP to field one candidate, instead of several, per constituency; another blow to factions' power.

The new electoral system has weakened another old structure, the LDP's *zoku* or industrial sector lobby groups. As well as being divided into five factions, the LDP runs a number of *zoku*, whose job it is to co-ordinate policy with the businesses and government ministries involved in that sector, a feature of the traditional iron triangle of politics, business and bureaucracy.

Thus, an old style multi-seat district cbose several *zoku-gin* – industry tribesmen – from, say, telecommunications, construction and health. Mr Hashimoto, as bead of the bealth and welfare *zoku*, for example, was and still is counted on to influence the finance ministry in Tokyo to allocate a generous budget for health care in his home town. Now, *zoku* generalists are more electable than specialists.

There is, as yet, only a little evidence that politicians really feel less at the beck and call of faction leaders. One small example is how Mr Taku Yamazaki, a rising star in the LDP – where he is head of policy – has openly criticised his faction boss's calls for case-by-case parliamentary co-operation between the the LDP and New Frontier party, the main opposition group.

A further sign of change is the emergence of a more competitive political opposition than the one that existed before the LDP's electoral shock in 1993. Until then, the main opposition group was the Japan Socialist party, which made itself unelectable by pursuing extreme policies such as support for the regime in North Korea or opposition to the security pact with the US.

Now the SDP, with only 15 seats in the 500-seat lower house of parliament, is even less of a force to be reckoned with. The new opposition is chiefly composed of two moderate parties. There is the NFP, under Mr Ichiro Ozawa, a former rising star of tha LDP who triggered the 1993 upheaval by leading a defection from his old party, plus the Democratic party, led by Mr Naoto Kan, an aggressive young operator who won fame as former health minister by exposing his health ministry's part in distributing Aids-infected blood to haemophiliacs.

While internally divided over policy and tactics, the current opposition is more serious about taking power than the socialists ever were.

But at the same time, features of the old political structure have proved robust. For example, faction bosses still retain one of their greatest powers – to choose cabinet jobs. The old practice of rationing ministries between factions according to numerical strength was again applied when Mr Hashimoto formed his first government after last October's general election. Faction leaders shared out the jobs based on seniority and clout, rather than merit. The Keizo Obuchi faction, of which Mr Hashimoto is a member, got the largest share, with seven of the 21 posts.

Factions' durability invites the question of whether Japan will ever see a strong political opposition, seen by many as the pre-requisite for generating a political debate of the quality needed to tackle the many complex problems of becoming a mature economy.

Mr Dan Harada, a political consultant, believes that an opposition of sorts is emerging within the LDP itself, in the shape of independent-minded politicians such as Mr Yamazaki. On the surface that is not a thrilling prospect. As an individual, Mr Yamazaki does not set minds alight. Perhaps it would be unfair to expect him to. Tokyo political analysts agree that it will take several general elections for a more open style of government to emerge. The old structure has partially collapsed, but a new one has yet to take shape.

INTERNATIONAL TRADE • by Michiyo Nakamoto

Common goal with US

US trade officials and Miti mandarins seek deregulation and investment in Japan

Clinton and Miyazawa: their agreement set the stage for a period of strained relations Picture: Reuter

Four years ago, the US government managed to a convince a reluctant Japan to ambark on a dialogue aimed at using numerical targets to pry open Japan's markets to foreign goods and services.

The agreement to hold the consultations, arranged between US President Bill Clinton and Mr Kiichi Miyazawa, the then Japanese prime minister, created a period of strained relations during which Japanese trade officials accused their US counterparts of trying to "manage" trade.

Last month, with hardly a whimper of protest, the Japanese government once again agreed to a new framework for bilateral discussions with the US over new but similar issues. Given the importance of the US-Japan relationship, and the size of trade between the two countries, it is only natural that the two sides should hold such consultations. What is more, the new framework does not include the abhorred numerical targets for opening up Japan's markets or reducing its trade surplus.

But the seeming willingness with which Japan signed up to the bilateral agreement reflects the changed circumstances the country faces as the economy enters a period of more modest growth than it has known for most of its post-war history.

The difficulty the country has had in climbing out of its latest recession has reinforced the feeling that Japan faces slower economic growth ahead and convinced leading Japanese politicians and bureaucrats that to ensure the economic well-being of the country, they need to restructure the domestic economy through deregulation and other means, much more radically and at a much faster pace than in the past.

That need has been given added force by the move overseas of Japanese manufacturing in the past several years. Driven by the damaging impact of trade friction and wild exchange rate fluctuations, Japanese companies have shifted a significant proportion of their activities outside the country to manufacture products, wherever they deem best, in a global context.

The ratio of overseas to domestic manufacturing for Japanese manufacturers, at 9.1 per cent in 1995, is not as high as it is for US or German manufacturers, at 26 per cent and 23 per cent respectively. Nevertheless, the ratio has tripled from 3 per cent in 1985, according to statistics from the Ministry of International Trade and Industry (Miti).

What is more, the ratio of outward to inward foreign direct investment in Japan is much higher than it is in most industrialised countries, points out Mr Hideyuki Urata, assistant director of the International Trade Research Office at Miti. The ratio for Japan was 13.6 per cent in 1994 compared with 1.3 per cent for Germany and 1.2 per cent for the US. That indicates that Japan is less attractive as a country to invest in, he notes.

Japan has also been less successful in attracting foreign R&D funds while the country's high corporate tax rates has led to a huge gap between the pre-tax and after-tax profitability of foreign companies.

As a result, perhaps to their own surprise, the mandarins at Miti and elsewhere have coms to share a common goal with trade officials in the US in promoting deregulation and investment in Japan.

The annual trade white paper, which sums up Miti's view of the state of affairs regarding the trading environment for Japan, reflects that preoccupation. "The focus (of this year's white paper) was on internal reforms rather than on external relations," says Mr Urata.

A spreading public consensus that Japan needs to reform its markets has led Miti officials to spend a good deal more of their time these days wondering bow to make Japan a more attractive place for investment by Japanese as well as foreign companies.

"In order for Japan to continue to be an advanced industrial country, it has to carry out economic structural reforms," Mr Urata says.

In addition to having high corporate taxes and bigh personnel and other costs, the country has lagged other industrialised countries in basic research, he notes.

Compared witb a total 3,447 applied for by US universities in 1994, just 124 patents were filed by Japanese universities. This is an issue that merits serious attention if Japan is going to nurture the kind of new high technology businesses that have supported economic growth in the US and elsewhere, Mr Urata points out. "Universities bave played a major part in building up Silicon Valley and the software industry in Bangalore," he notes.

As for deregulation, Miti has become one of the strongest advocates of deregulation and has taken steps to stimulate competition in sectors hitherto protected by regulation and industry-wide collusion. In the oil industry, for example, the liberalisation of oil imports has triggered a fierce battle in the gasoline market and sent prices tumbling.

Miti is also keen to encourage foreign participation in Japanese markets, particularly in the services sector, according to Mr Urata. The ministry acknowledges that "the lack of foreign investment in the services sector has kept prices high," he says.

When it comes to measures to liberalise spacific sectors, the ministry, whicb has responsibility for regulating as well as nurturing industries ranging from oil to retailing, has not been as keen to take quick action as its rbetoric implies. For example, measures to ease the large-scale retail store law, whicb restricts the activities of large retailers, have been slow in coming.

At the same time, trade friction with the outside world increasingly revolves around sectors which are not within tbe jurisdiction of Miti. The row witb the US over port practices and liberalising civil aviation is being dealt with by the Ministry of Transport, while tbe continuing refusal of Japan to speedily implement tax equalisation for imported spirits as ruled hy the World Trade Organisation originates in the Ministry of Finance.

If Miti is serious about its self-designated role of promoting deregulation and more open markets in order to stimnlate economic growth, it has to ensure that its rbetoric is matched by its actions and that it has a wider following among fellow bureaucrats. In that respect, Japan's trade officials have their work cut out for them.

FOREIGN POLICY • by Gillian Tett

Newly independent line

Internal political reform may be the key to Japan's future role on the world stage

This summer a pile of rice is sitting in Japanese warehouses which provides an intriguing hint of policy change.

In recent months a succession of western governments, including the US, have quietly pressured Tokyo to donate the rice to North Korea's starving population.

But so far Tokyo has refused. And although diplomats think that Japan may eventually back down, this is unlikely to occur unless Tokyo wins some domestically important compromises, such as permission for Japanese spouses in North Korea to visit Japan.

The incident, though tiny, is symbolic. During the past 50 years, Japan has largely followed the US lead on security and other foreign policy-related matters. But six years after the end of the cold war, there are signs that Japan is starting to rethink its policy – both towards the US, and other regional players.

This movement is neither rapid nor coherent. For as Ms Yoshio Hatano, a former Japanese diplomat at the United Nations admits, the hallmark of Japan's foreign policy is that the government remains nervous of running ahead of the domestic consensus. "Policy here is very dependent on public opinion and politics," says Mr Hatano.

But in some areas – such as the rice pile – Japan is starting to take a newly independent line. As one Australian diplomat says: "Japan is moving towards a definition of distinct Japanese interest, as opposed to a US, western or Asian interest."

One sign of this is already emerging in the all-important US-Japan axis. In contrast to earlier years, trade relations between the two countries have been relatively quiet of late: although the US has complained about the recent surge in Japanese exports, these protests have not had the bitter edge of previous years.

But what has stirred debate has been another issue: the US-Japan security alliance. Since the second world war, Japan has eschewed any military role, as atonement for its aggression earlier this century. Instead, the US security umbrella has sheltered it. And Washington was generally happy to provide this commitment to ensure that Japan remained a bulwark against any Communist threat. But both sides now accept that the end of the cold war means that it is time to reconsider this arrangement, so they recently launched the first full review of the alliance for some 20 years.

These discussions are unlikely to lead to any dramatic reduction in the US presence in Japan; senior US military officials have stressed that they remain committed to maintaining their 47,000 troops in Japan.

But an interim joint report from the discussions in June proposed that Japan should give substantially greater support than it is presently committed to provide to the US in the event of an Asian conflict. These proposals are due to be considered by the Japanese parliament in the autumn.

The suggestion is very controversial for Japan, because it implicitly challenges its pacifist constitution. This bans the use of so-called collective defence, or the use of force against an attack on a partner. Japan has been gradually tiptoeing towards playing a greater military role overseas – it has recently contributed to UN peacekeeping forces in areas ranging from Cambodia to the Middle East. But taking part in a military attack would be a bold new departure.

However, the US axis is not the only relationship provoking reflection. China, for example, is currently absorbing considerable Japanese diplomatic effort. It has reacted to the latest US-Japan talks with predictable unease. Although relations between China and Japan have cooled markedly in recent years, Japanese officials are now making pains to build closer ties again. Mr Hiroshi Mitsuzuka, for example, made a point of visiting Beijing this year on his way back from the G8 meeting in Denver in June.

And as Japan eyes the region, it is also re-examining its ties with its giant northern neighbour, Russia. Relations between Moscow and Tokyo have remained distinctly frosty since the end of the cold war because of a long-running dispute over four islands off the north of Japan, known variously as the Northern Territories in Japan, and Southern Kuriles in Russia. The islands, which were seized by Russia in the closing days of the second world war, are claimed by Japan.

Until last year, Japan insisted that it could not develop closer ties until the dispute was resolved. However, the stance has recently changed: although there is no sign of any resolution of the argument over the islands, Japan has now agreed to set aside the issue while it develops closer economic ties with Moscow.

The consequence has been growing economic ties in the Russian far east, and a flurry of official visits: a Russian naval vessel, for example, recently docked in Japan, in the first such visit for a century. A formal meeting is now planned between Mr Ryutaro Hashimoto, the Japanese prime minister, and Mr Boris Yeltsin, the Russian leader, this autumn.

On the broader world stage, there are also signs of change. Tokyo is currently campaigning to be given a permanent seat on the UN Security Council. This is unlikely to happen for several years. However, Tokyo's confidence over the issue was greatly boosted last autumn when it beat India in an election for the Asian seat with a greater than expected margin.

However, as Japan lobbies for a greater UN role, one crucial question remains: whether the country yet has the type of political infrastructure that could allow it to take the rapid policy decisions needed in a crisis?

Some other G7 countries certainly have reservations: the Japanese government's reaction to the Japanese hostage crisis in Peru earlier this year, for example, has been criticised for being excessively weak and vague, not least because of the slow process of decision-making.

The Japanese government itself insists that this criticism is unfair. But valid or not, it suggests that the real key to Japan playing a more assertive role on the world stage may now lie less with its diplomats and more with the vexed issue of internal political reform.

CAR MANUFACTURING • by Michiyo Nakamoto

Renewed vitality could prove to be short-lived

The industry may now have to cope with a possible slump in the domestic market

Japanese streets have become much more colourful in the past few years, with bright green vans and yellow four-wheel-drive vehicles speeding alongside the black limousines and white family saloons that have long dominated the country's highways.

The more colourful traffic in Japan owes something to the growing presence of imported cars, particularly from Europe, which have caught on among independent-minded consumers eager to stand out from the crowd.

But it also reflects how far Japanese carmakers themselves have come in responding to one of the most significant changes in the domestic market in recent years.

After several difficult years which caught them out of sync with their main customers in the home market, Japanese carmakers are again on the offensive.

Last year, total vehicle sales in Japan rose 5.6 per cent to 7.29m units as Japanese companies introduced one new model after another to whet consumers' appetites.

Mr Enda Clarke, industry analyst at Dresdner Kleinwort Benson, figures that no fewer than 28 new vehicles, of which 12 were totally new cars, were launched in the Japanese market in calendar 1996 alone.

Meanwhile, exports, which had been battered by a strong yen and had fallen for a decade, rose 6.6 per cent in the year to March, as the yen's value dropped sharply against key currencies, particularly the dollar.

Against this environment, and in spite of a fire at one of its key suppliers, Toyota maintained its position as Japan's biggest profit earner among non-financial companies for the ninth consecutive year, according to Wako Research Institute of Economics, an independent think tank.

There is no question that the industry owes much of its turnaround to the windfall from the yen's sudden depreciation, which has boosted overseas profits substantially. Carmakers were also helped by a one-off surge in domestic demand due to an increase in purchase tax this spring, which encouraged many people to buy big-ticket items such as vehicles before the increase came into effect in April.

But it is also to the credit of Japan's leading carmakers that in the past few years they have been able to slash costs and introduce a large number of new models better suited to market needs while at the same time expanding their overseas operations more aggressively than ever before.

Mr Clarke calculates that 11 Japanese vehicle makers cut costs by a total Y570.1bn in fiscal 1994, Y558.4bn in 1995 and a further Y392.1bn last year. These cost-cutting exercises have largely involved standardising components, shortening product development times and raising productivity at the factory.

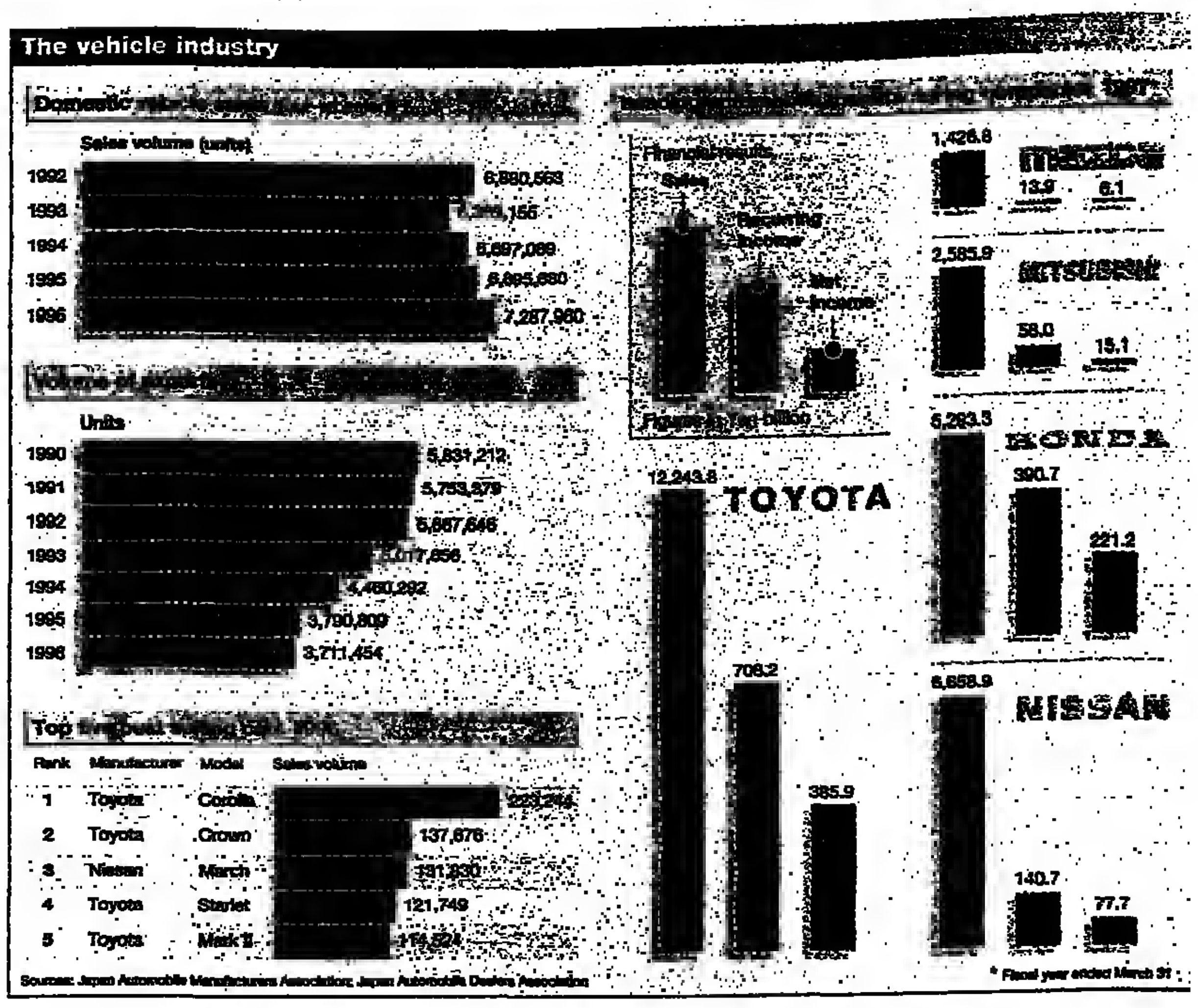
As a result, Japanese carmakers can now introduce new models into the market in as little as 15 months and at costs 20 per cent lower than previous models, he points out. That compares with an average of 30 months' development time for western competitors, many of which spend more than double the cost of their more efficient Japanese rivals to develop vehicles, Mr Clarke notes.

The turnaround has not been even. While all the Japanese carmakers have implemented cost cuts, speeded up development times and brought out more recreational vehicles, there is a wide divergence in the fortunes of the leaders and the laggards.

Honda, which has been the star of the industry for the past few years, and Toyota, have charged ahead, sometimes with the support of massive incentives in the latter's case. Nissan, Mitsubishi and Mazda, on the other hand, have put in less stellar performances, due to their lack of appealing models in the recreational vehicle (RV) category.

As the impact of the purchase tax increase is felt, and as demand in overseas markets, particularly the US, begins to slow down, the year ahead will test the ability of the two leaders to maintain their momentum – and of their less successful competitors to make up for lost time.

As for overseas operations, despite an expected slowdown in the US and moderate growth in Europe, the likelihood that the yen will remain near current levels of Y115 to the dollar, against a break-even rate of about Y100 to the dollar, plus growing demand for Japanese RVs, are expected to sustain firm contributions from overseas sales. The question is how the industry will cope with a possible slump in the domestic market. Domestic sales have already fallen 15 per cent in April and 11 per cent in May.



The main strategy whereby Japanese carmakers intend to brush aside the dampening effect of the higher purchase tax is to introduce a wide range of new models, most of which will be RVs.

Having launched 11 new models last year, Toyota plans to build on its domestic dominance with a similar number of new models, of which a fair proportion are likely to be RVs. Nissan is launching eight new models, including four station wagons, to reassert its diminishing status as the number two maker in Japan. Mitsubishi and Mazda likewise will release more RVs.

The concern is that by introducing a large number of new models into a sluggish market, the car companies risk an oversupply, notes Mr Stephen Volkmann, industry analyst at Morgan Stanley in Tokyo, in a recent report. If that happens, margins are likely to come under pressure as manufacturers pile up incentives to move their products. Those companies which fail to meet their targets could face high levels of inventory.

Under such a scenario, Japanese carmakers' renewed vitality in the home market could prove to be somewhat more short-lived than they hope.

DEREGULATION • by Bethan Hutton

Welcomed by consumers

Many services and commodities have become significantly cheaper

One of the interesting paradoxes of Japanese society is that while Japanese officialdom, and to a lesser extent the business world, can be notoriously resistant to change, Japanese consumers adopt new products and services faster than almost anywhere in the world. Those two tendencies are coming bead-to-bead in the current bout of deregulatory fervour.

Progress in industrial deregulation has been slow, and the level of petty regulation can still seem mind-boggling to outsiders, but the situation is changing at an increasing pace.

Late last year, the head of economics at the Organisation for Economic Co-operation and Development said that deregulation of five key sectors of Japanese industry could boost the country's economic growth by 6 percentage points over the next few years. The five sectors he named were electricity, airlines, trucking, telecommunications and retail distribution.

In fact, deregulation is under way to some exteot in all those sectors, and a great many more. The Hashimoto government has publisbed lists of nearly 3,000 planned deregulatory measures, in areas ranging from construction standards to employment ageocies, and car insurance rates to non-prescription medicine sales, as well as the much-trumpeted "Big Bang" in financial services. Some of these are just minor enhancements of measures already planned or implemented, but many are big leaps forward.

When the barriers are lifted, change can happen seemingly overnight. One of the most visible effects of recent deregulation in Japan can be seen in the telecoms industry, in particuiar mobile pbones. Five years ago, wben mobile pbones were common enough to be seen as nuisances rather than necessities in the UK, they were still a rare sight on the streets of Tokyo.

Today, every pocket or handbag seems to conceal a phone, whether it belongs to a banker or a schoolgirl. The key in this instance was a combination of two deregulatory measures in 1994, allowing consumers to buy rather than lease their mobile pbones, and allowing new service providers into the market. The result was a leap from 1.25m mobils phones in use in 1991, to 28.2m in June this year. The market penetration of mobile phooes now stands at more than 22 per cent – the fourth-highest in the world.

The example of mobile phones is popular with supporters of deregulation for good reason: the new market, with attendant jobs and casb flow, has effectively come from nowhere. Rather than taking business away from non-mobile phones, the wider availability of mobile phones has meant people have made more calls overall, although public paypbone use has declined somewhat. The next step is deregulation of fixed-line telecoms, which will be less likely to create winners on all sides.

The Japanese market has been artificially divided between companies offering local, long-distance or international services. NTT, the semi-privatised giant, is allowed to provide local and long-distance services. But witb tbe planned deregulation, companies currently confined to offering just one type of service will be able to offer all three, while NTT is to be broken up into several smaller companies whicb will continue to dominate their respective markets.

Many of the smaller companies are already planning mergers or alliances with companies serving other sectors, because the general view is that universal service providers will stand the best chance of survival in the newly deregulated environment.

The arrival of experienced foreign competitors on the field will add to the tension.

Overseas pressure has long played a key role in pushing the Japanese government towards deregulation. The non-life insurance market is a good example of this.

After years of pressure from US insurers, Japan last year submitted, agreeing to giva insurers greatsr freedom to set their own rates. Car insurance premiums, for example, will be able to vary much more widely depending on the customer's age, sex, experience, location and so on, and individual insurers will be abie to use their own underwriting calculations, rather than using risk ratings set by a central body.

Rates for many types of non-life insurance have been almost uniform across the industry, and the lack of competition has led to stagnation. The new rules, together with the entry of more overseas insurers into the market, should shake up Japan's sleepy insurers, and provide significant savings for consumers.

The effects of deregulation are already haing felt throughout the Japanesa economy, and are largely walcomed by consumers. Many commodities and services have become significantly cheaper because of deregulation leading to incrsased competition; among them petrol, telephone calls and whisky.

All the main political parties are officially pro-deregulation. That is not to say, however, that the traditional attachment to regulations which safeguard social stability bas been completely swept away.

So far the daregulatory process has led to gain, but not much pain for Japanese society. But there will come a time in the near future when the harsher effects of deregulation will become apparent: job losses are inevitable in some of the most cossetted industries, and some Japanese companies will undoubtedly be bought out by foreign competitors. How those events are managed will determina whether public support for deregulation will continue down the long road ahead.

RETAIL INDUSTRY • by Gwen Robinson

Reforms squeeze sector

Convenience store chains and foreign stores are benefiting from deregulation

The government's push for deregulation is squeezing Japan's fiercely competitive retail industry, which has been struggling with weak consumer sentiment and falling sales since the end of the big-spending "bnbbie economy" era of the late 1980s.

Just as consumer confidence appeared to be recovering this year, retailers were hit by the increase on April 1 in sales tax from 3 to 5 per cent. Nationwide department store sales plunged an annual 14 per cent in April and fell a further 5.1 per cent in May.

Real consumer spending, maanwhile – measured through the government's monthly household spending survey – fell 2.2 per cent in May, far exceeding expectations.

Retail analysts dismiss the longer term impact of the sales tax increase, and compare the currently dismal trends to those in 1989, when the sales tax was introduced. The truly daunting challenges for retailers in the coming years, they say, stem from the government's ambitious reform programme and the rise of discounters to meet growing consumer demand for better valne.

Both factors have paved the way for a steady inflow of foreign retailers and set the stage for intensifying competition.

Leading the way has been the reform of the Large-Scale Retail Store law, which previously presented daunting obstacles for large-scale retailers wanting to establish new stores in areas where there were existing shops. The law still requires anyone planning to open a shop of more than 500 sq m to gain permission from local-government committees in the area.

Other reforms have led to the steady erosion of traditional distribution methods and the breakdown of rigid relationsbips between shopping centre developers, department stores and specialty shops. They have also triggered new growth in retail outlets across almost every category, from shopping centres to convenience stores.

The losers, say analysts, are likely to be small shops, particularly the "mom-and-pop" corner stores being shoved aside by new growth in small supermarkets and convenience store chains. Medium-size supermarkets and general merchandising stores are also suffering, caught in the squeeze between larger, more efficient, operators and increasingly competitive convenience stores.

In the developing deregulated environment, convenience store chains are among the winners. As one of the few retail sectors to sbow continued profit and sales growth in April and May, they were little affected by the sales tax increase and continue to steadily expand their networks throughout Japan.

In addition, recent reforms have enabled them to expand their range of products and services to include direct sales of package overseas tours to consumers and, soon, salss of over-the-counter pharmaceuticals.

Deregulation is also benefiting foreign retailers, who are showing more interest now than ever before in Japan. Among the recent success stories is Tiffany's, of the US, Toys R Us, the US discount toy retailer, and clothing empires The Gap and Eddie Bauer. Carrefour, the Frencb supermarket giant, is planning its entry into the Japanese supermarket industry by 2000.

Many observers sse the ultimate test for foreign penetration of Japanese shopping culture, bowever, as the quest to build and operate massive shopping complexes and fill them with foreign, as well as Japanese, retailers. With this goal in mind, two US groups are currently trying to negotiate their way through a maze of local and national government regulations.

In the past year, US companies have stepped up their efforts to bring American-style malls and foreign retailers to Japan, despite early signs of hureaucratic opposition. The moves come at a time of rapid deregulation in Japan's retailing industry.

One of the first and most ambitious entrants to large-scale retailing in Japan is American Malls International (AMI), an off-shoot of Western Development Corporation, a leading US developer of retail and office complexes. After studying the Japanese market for two years, AMI last year established a Japanese subsidiary to oversee plans to build a string of multi-billion-dollar malls called "retail theme parks" throughout Japan.

AMI selected a site for its first project in the town of Moriya, about 35km north of Tokyo, and began negotiating with local landowners to purchase about 800,000 sq m for construction of what would be one of the world's largest shopping malls. At the same time, the company drew up plans for a similar large-scale mall in the port city of Kobe, and began looking at candidate sites for six other large-scale malls in different locations in Japan.

In April, however, AMI ran into bureancratic obstacles when Japan's ministry of agriculture, forestry and fisheries said it would oppose AMI's plan because it violated a law designating the site as a prime farming zone for purposes of producing vital crops. Much of the Moriya site is not under cultivation, but the ministry has refused to change the land's special status.

Thousands of designated farming fields easily won government approval for conversion into golf courses and resorts during the speculative "bubble economy" era of the late 1980s.

Critics say the governmeot is using the law to block the large-scale entry of foreign retailers, and warn that continued refusal could trigger a trade dispute. The government has not commented on AMI's project but the company has signalled its intention to continoe negotiations with local authorities and landowners, and deal with higher-level opposition when the time comes.

"The mall development process is difficult anywhere in the world," said Mr Herbert Miller, AMI chairman. "What we've learned in Japan is to be patient, work with the communities... and try to find solutions whicb meet the needs of both local and national authorities."

Meanwhile MGS Japan, a partnership between WPI Koll, a large US sbopping complex developer, and Funai Consulting, a Japanese marketing consultancy, is planning to develop a 300,000 sq m mall in Osaka. MGS bas also announced plans to develop four other large American-style malls throughout the country by the year 2003. Large Osaka-hased retailers have expressed opposition to the plan.

In the long term, analysts say, the entry of large American-style mall developers to Japan is inevitable and will revolntionise traditional retailing concepts.

SURVIVAL GUIDE • by Gwen Robinson and Motoko Kondo

Tranquillity is only an hour away

Advice for visitors on where to find the best sushi, shops, massages, luggage collection – and temples

For casual visitors to Tokyo, the hunt for good, affordable sushi can be fraught with dangers – mainly to the wallet rather than the stomach. In a sushi-loving nation, inferior sushi bars tend to have difficulty staying in business.

First-timers are advised to avoid the simple-looking but astronomically expensive sushi restaurants dotted throughout the Ginza district. At the novelty end of the scale, you can eat your fill at "kaiten" sushi shops, where the goods move around on a conveyor belt, for little more than about Y1,500-Y2,000 a head. But for lingering in more congenial surroundings and ordering piece by piece, as many Japanese do, the Sushisei chain provides good quality at reasonable prices in several locations in Tokyo.

The flagship restaurants are in the Ginza and the business and entertainment district of Akasaka. There is also a branch in the nightlife district of Roppongi. They all provide photo menus if language is a problem. Alternatively, wander down to the Tsukiji fish market.

Sushisei: Akasaka branch, 3-11-14 Akasaka, Minato-ku, Tokyo. Tel. (03) 3582-9503. Ginza Branch: No. 7 Kanai Bldg., 2-13 Ginza 8-chome, Chuo-ku. Tel. (03) 3572-4770. Edogin: 4-5-1 Tsukiji, Chuo-ku. Tel. (03) 3545-4401. Edokozushi: Main store: 3-22-5 Uchikanda, Chiyoda-ku, Tokyo. Tel. (03) 3258-1217.

The perfect massage: The Japanese have perfected the art of therapeutic massage, known as "shiatsu", and have now condensed it for busy people into services that provide quick 10 or 15-minute massages of the back, feet, hands or head. Many also offer longer treatments and even provide acupuncture services.

Little English is spoken at the clinics, although some of those listed below in main shopping areas such as the Ginza and Shibuya are more accustomed to dealing with foreigners who can only nod, smile or grimace. It is advisable, however, to ask a Japanese-speaking person to make a reservation.

Ginza Seitai-in (Tokiwa Building, 5/F, 1-6-6 Yurakucho, Chiyoda-ku; tel. (03) 5512-3133) is a small place conveniently located in Yurakucho, near the Ginza. Masseuse Shinichi Oshima and his assistant offer massages from Y1,000 for 10 minutes and Y2,800 for 30 minutes.

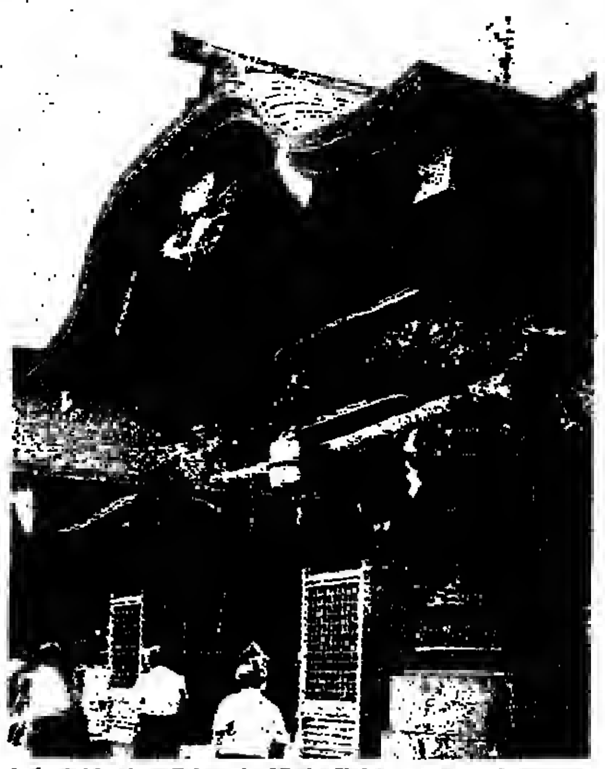
In the shopping district of Shibuya, Itoh Shiatsu Massage Centre offers 15-minute massages for Y1,500. A one-hour massage costs Y5,500.

Temomin, in Akasaka (3-21-15 Akasaka, Minato-ku; tel. (03) 3589-5517), offers special 30-minute leg massage-and-mud-pack treatments for Y4,000. The legs are massaged for 15 minutes and then mud from mineral springs is applied to rejuvenate tired, swollen legs. A 10-minute massage of the neck and shoulders is Y1,050.

Flee to the mountains: Peace and tranquillity can be found little more than an hour or two from Tokyo in the form of hiking paths around shrines and temples on mountain tops.

If time is limited, take the 55-minute train ride on the Yokosuka line out of Shinagawa to Kamakura, one of Japan's ancient capitals. Alight at Kita-Kamakura, the stop before Kamakura, and do the 90-minute walk to the famous Big Buddha, taking in temples and splendid old buildings on the way.

If you have a free weekend, head for Mount Mitake, a 90-minute drive west of central Tokyo, or a two-hour trip by train and bus to the cable car that takes you up the steep ascent. The mountain has been considered holy since ancient times and on the summit is the Mitake Shrine. According to legend, the original shrine dates back to 90BC. It was rebuilt in the Edo period (1600-1869) and today attracts hikers and sightseers who come either for a day trip or to stay overnight in one of dozens of traditional inns on the mountain top that originally catered to weary pilgrims.



A short drive from Tokyo: the Mitake Shrine on Mount Mitake

A simple, friendly family-run inn on Mount Mitake is Komadori Sanso, which provides accommodation in tatami rooms with excellent views over the valley for just Y4,500 per person per night. An excellent Japanese dinner served in the inn's traditional dining room costs an extra Y2,000 per person and breakfast, Y1,000. For more information and reservations, call: (0428) 78-8472.

Paradise for shoppers: With its grand department stores and myriad specialty retailers, Tokyo is a consumers' paradise. But finding the right presents at the right price can be daunting for shoppers with limited time.

One way to combine sightseeing and find interesting souvenirs and gifts is to hop on the train to the old north-eastern district of Asakusa. There, the long entrance path to the famous Asakusa Kannon temple is lined with small shops selling everything from handcrafted wooden toys to traditional cotton "yukatta" kimono and delicate hair ornaments.

Alternatively, head for the fashionable inner-city shopping district of Aoyama and go to Oriental Bazaar (9-13 Jingumae 5-chome, Shibuya-ku; tel. (03) 3400-3933), on the broad main street known as Omotesando. There you'll find three floors of arts and crafts, antiques, traditional houseware and souvenirs ranging from Y300 up. For last-minute shoppers, there's a branch at Narita Airport.

For old maps, books and woodblock prints, explore the Jinbocho district and start at Ohya-shobo, one of Tokyo's largest purveyors of old prints, maps and books, at 1-1 Kanda-Jinbocho, Chiyoda-ku; tel: 32910062.

Bags and baggage: Smooth departures can be greatly enhanced by the Sky Porter service, which will collect suitcases and packages from any location in Tokyo and deliver them to any international airport in Japan, where you can collect them on your way to check-in. In Tokyo and its surrounding areas, reservations must be made at least two days in advance, with pick-ups taking place the day before your departure. The costs per package or case range from Y2,000 up.

Similar prices and service apply for arriving visitors who can leave their bags at the Sky Porter desk in the terminal lobby and receive them at home within 24 hours. Call (03) 3590-1919 for more information.

EDUCATION • by Charles Smith

Still groping for a system

A cautious, step-by-step approach to the reform process has been adopted

Part of the price Japan has had to pay for catching up with the West is the need to overhaul and modernise some of the ideas and institutions which helped it to achieve its present level of affluence.

For the past 10 years it has been agreed among scholars, politicians and even Ministry of Education officials that education is one such area.

The knowledge-oriented, egalitarian school system that Japan developed in the 1950s and 1960s was well suited to maximising economic growth, suggests Dr Ikuo Amano, Dean of the Graduate School of Education at the University of Tokyo (Todai). But the system probably does not suit a mature society where there is an increasing need to nurture individual initiative and self-expression.

Reforming the education system, however, is clearly a tall order. The problems include the difficulty of breaking with more than a century of tight control by the central government and a serious lack of consensus about the effects of changes in a well-tried system.

Given these uncertainties it is not surprising that officials in the planning division of the Ministry of Education have adopted a cautious, step-by-step approach to the reform process.

A series of reports issued over the past two years by the Central Council for Education (CCE), an advisory body to the ministry, has stressed the need to broaden the scope of high school and university exams so as to place more emphasis on "all-round" achievement by students. The government is also trying to modify a system of graduation-by-age which obliges all students to move through the school system at the same pace, regardless of ability.

Japan already boasts one of the world's most productive and efficient education systems *Picture: Ashley Ashwood*

Such changes, however, have run into strong opposition from conservative prefectural education boards who are in turn supported by the national teacher's union Nikkyoso.

In a recent interview with the Yomiuri Shimbun, a leading daily newspaper, Mr Akito Arima, CCE chairman, identified "society and teachers" as the main obstacles to building a more diversified school system.

Opponents of change can, and do, cite evidence that Japan already boasts one of the world's most efficient and productive education systems. A strictly-enforced uniform national education curriculum has produced a society which is officially claimed to be more than 99 per cent literate, despite the difficulty of a written language which combines Chinese characters with two national syllabic scripts.

Japanese children are also highly numerate, judging by the results of international tests which consistently rank Japan among the world's top four nations for secondary school maths ability.

Professor Kanji Nishio, an educational specialist at Tokyo University of Telecommunications, adds that the system has delivered quantity as well as quality. Some 98 per cent of children who complete the nine years of compulsory education enforced by the government go on to attend senior high school, and 43 per cent of senior high school graduates enter universities or two-year colleges.

A feature of de facto universal education up to the age of 18, says Prof Nishio, is that cultural differences between different income and occupational groups are much narrower in Japan than in many western countries. "In Japan, every school child studies the *Genji Monogatari* [a novel written by an 11th century court lady, which ranks as one of the classics of the national literature]."

True as this may be, statistics on literacy and school attendance clearly do not tell the whole story. While primary education in Japan is generally believed to be largely problem-free, recent surveys by the education ministry and the Prime Minister's Office suggest a rapid increase in frustration and dissatisfaction among junior and senior high school students. Student frustration is thought to be one of the factors behind a recent rash of teenage suicides and crimes, including the murder and decapitation in May of an 11-year-old boy in the south-western port city of Kobe, allegedly by a 14-year-old school friend.

Social factors such housing shortages and a decline in the educative function of families may be contributing to teenage frustration. But a report issued by the CEE in June suggests that schools can help by creating an education environment that offers "room to grow" [*yutori*] in place of the narrow emphasis on knowledge accumulation that provides the main focus of the present system.

In order to enhance *yutori*, the report suggests teachers should encourage children to talk more and should avoid concentration on minute grammatical points when teaching English. Excessive attendence at *juku*, after-school cram-shops which help children to prepare for over-rigid university entrance exams, is cited as another undesirable source of pressure on teenagers.

The problems of Japan's present education system do not end at the point of high school graduation. Universities suffer from a lack of competition between institutions – and individual teachers – which results in students learning far less than at comparable universities in the US or Europe.

Under Japan's traditional lifetime employment system, inadequate university education was not a big problem, suggests Dr Amano of the University of Tokyo.

Companies recruited staff mainly on the strength of university affiliation, rather than by examination, and were content to hire generalists who could be moulded to suit company needs by in-house education programmes later in their careers.

The fading of the lifetime employment system in Japanese industry and the increasing need for individuals to make their own careers seems to have changed all this. Dr Amano suggests universities need to expand the range of study options they offer beyond a limited range of traditional faculties and introduce what he calls professorial "sofas" in place of the traditional "chair" system where a single head of faculty is insulated from competition by peers or juniors.

Dr Amano claims that Tokyo University is already implementing reforms to enhance competition and broaden opportunities for students. While this may be so, it seems clear that at a national level, Japan is still groping for an education system that will meet the needs of an affluent but increasingly uncertain society.

INFORMATION TECHNOLOGY • by Michiyo Nakamoto

Lure of the superhighway

Industries are racing to adopt advanced IT – but will the investment pay?

Not so long ago, Japanese policy makers and academics warned that the country was falling deplorably behind the US in its adoption of advanced information technology.

The high cost of personal computers and online communications, a lack of familiarity with computers, and the complexities of the Japanese language all meant that Japan was trailing other countries in tha race to build an information superhighway, concerned officials say.

But a big change has taken place in the past few years. The Japanese public has embraced personal computing and online communications with the same fervour that colour televisions and stereos were bought at an earlier stage in the country's economic development.

Space is being allocated in company offices, family sitting rooms and school classrooms throughout the country for tbe increasingly indlapensable PC, modem and printer, whila online service providers have mushroomed to meet snrging demand.

Electronics retailers in Tokyo's Akihabara and elsewhere beve opened specialised PC shops as consumers bnve rushed to buy the latest models, add to their software collections or upgrade their modems. As a result, PC shipments have risen from 1.95m units in 1990 to nearly 7m units last year, according to the Japan Electronic Industry Development Association which is forecasting a further lncreasa in shipments to 8.8m units in the current fiscal year.

Last year, two-thirds of overall capital spending was related to information technology, points out Mr Akihiko Shinozaki, deputy director of the international division at the Japan Development Bank (JDP).

The number of internet users in Japan is also growing at a spectacular rate. Having risen from 1.8m in 1995 to 5.3m last year, the number is forecast to continue rising firmly to 10.8m this year and 31.95m by the year 2000, according to IDC, an information tachnology consulting company.

A study by the Ministry of Posts and Telecommunications showed that in fiscal 1996, 47 per cent of Japanese companies surveyed were already using e-mail and local area networks while nearly 67 per cent were using the internet.

"Things are very different from three years ago," points out Mr Tatsuzumi Furukawa, the executiva in charge of multimedia and application software businesses at Fujitsu, one of Japan'a leading IT companies. "In Japan, once people are convinced that something is efficient they adopt it very quickly," he says.

The urgency to adopt advanced information technology is common to many industries in Japan, Mr Furukawa notes. A growing awareness of the importance of using IT as a compatitive tool has supported growth in Fujitsn's systems integration, services and support operations, and is expected to continue supporting robust growth in these businesses in future, he says.

Manufacturing companies, for example, are using IT to shorten product development times and raise their global competitiveness. Financial institutions, meanwhile, face a pressing need to make greater use of advanced IT to survive tha "Big Bang" deregulation measures being implemented, while in distribution, the importance of reducing lnventorles is encouraging companies to adopt tha latest IT systems.

In the car industry, where prodnct development normally takes 24 months or more, Japan'a laading vehicle makers are investing in advanced IT systems to connect suppliers, product designers, engineers, procurement teams and manufacturing experts, and shorten product development times to as little as 15 months.

Leading Japanese electronics companies have heen making use of information technology to support their global division of labour in which functions sucb as deslgn, development, procurement and manufacturing are allocated to the most appropriate locations in the world and linked through wide area networks, notes Mr Shinozaki at the JDB.

Against this background, Japanese electronics companies have been honing their skills in systems integration, service, and support, where the battle for profits lies.

"It has become very difficult to differentiate between different hardware products, so it is necessary to combine the hardware with network aystams, and software and services to provide valua to tha customer," notes Mr Furukawa.

The ability to offer customers a computer system that is not only efficient and reliable hut also expandable, thereby keeping pace with the speed of change in businesa davelopments, will datermina anccess in the business, Mr Furukawa says. In that respect, the demands of Japanese business users will drive the development of Japan's computer industry and its ability to offer world-class systems integration, support and services.

Fujitsu was able to gain knowledge in building a system that is state-of-the-art in terms of reliability, flexibility and expandability wben it won an order from NTT Docomo, tha fast-growing mobile communications group. The mobile phone operator needed e system that could handle the growth in demand both in terms of reliability and expandability.

There is no doubt that Japanese investment in information technology has been and will likely continue to be robust. Nevertheless, the use of IT in Japan still lags that in the US by two to three years. Mr Shinozaki notes. For example, the number of host computers in Japan, at just over 734,000 units, as a ratio of gross national product totalling $4,321bn, is far below the ratio in the US of 10m units against GNP of $6,737bn, according to the Ministry of Posts and Telecommunications. When it comes to the number of host computers as a ratio of total population, Japan lags behind not just the US but Australia and Canada as well, the MPT notes.

Mr Furukawa empbasises that the high cost of using telecoms networks in Japan is a big impediment to the greater use of IT. Although prices have come down significantly, "Japan'a network is still very, very expensive and this is a crucial issue," he says.

Meanwhile, the beneficial impact of IT investment on productivity at Japaneae companies has been less conspicuous than in the US.

Many Japanese companies in leading industries, such as electronics, have been able to raise productivity with the introduction of advanced IT systems. But the failure by most Japanese companies to combine investment in IT wlth restructnring measures – sucb as staff cuts or the adoption of new and more cost-efficient procurement cbannels – *has* kept returns on IT investment lower in Japan than in tha US, points out Mr Shinozaki.

The high level of investment in IT ltself could encourage auch restructuring measures in future, Mr Shinozaki says. At the same time, greater competitlon from highly efficient foreign companies, particularly in service sectors such as distribution, could encourage Japanese companies to adopt measures to raise efficiency.

Given tbat Japanese investment in IT still lags that in the US by several years, it is the next few years thet will provida a crucial guide as to whether the latest surge in IT investment hy Japanese companies will really pay off.

PROFILE Hokkaido

Struggling to rediscover its old pioneering spirit

In a country where the long arm – and deep pocket – of the state is central to many sectors of the economy, the island of Hokkaido has the distinction of being the region of Japan most dependent on public funds. The Japanese government is, rather belatedly, trying to wean industries off state subsidies and state control. Hokkaido will struggle more than most with this process.

Hokkaido is Japan's northern-most island, and formally became part of Japan only in 1869. Its image is of wide open spaces, virgin forests, and unspoilt nature. This sits uneasily with the role of the construction industry as a mainstay of the Hokkaido economy, along with agriculture and forestry.

"To tell the truth, construction is the big industry in Hokkaido, so as the central government decreases funds to Hokkaido, it is affecting the economy," said a local official.

A minister for the development of Hokkaido sits in the cabinet, giving weight to the idea that Hokkaido is underdeveloped and providing official sanction – and funding – for endless infrastructure construction projects.

Environmentalists, and now many others, complain that this has been an excuse for construction companies (often with friendly ties to politicians and senior bureaucrats) to prosper by building roads, dams and resorts, and covering river banks and mountainsides in concrete, even where there is no obvious need.

Consequently, many Hokkaido residents, particularly the remnants of the island's indigenous Ainu people, would now welcome cuts in government funding for that kind of development, despite the overall impact on the economy. As it happens, this coincides with a government looking to make budget cuts.

The future for the construction industry is uncertain, because private sector construction projects are unlikely to take up the slack left by reduced government investment. But if the role of construction and other public sector projects is set to decline, what can take their place in the local economy?

Hokkaido's manufacturing industry has always been weak, and the high-tech revolution has more or less passed it by. Its coal mines have closed, and it runs a persistent trade deficit with the rest of Japan because its shipments of foodstuffs and timber are outweighed by the machinery and manufactured goods brought in from other parts of Japan.

Agriculture also has problems. Hokkaido grows some rice but it is better known for its dairy products, wheat and vegetables, particularly temperate-climate types such as potatoes and onions. Like farmers elsewhere in Japan, Hokkaido is suffering from the opening – albeit gradual and limited – of Japan's markets to overseas agricultural produce.

"Since the Uruguay round four years ago, with the liberalisation of the market and also the decrease in government funds, farmers in Hokkaido have been anxious and worried about the future," says a senior official in the agriculture department of the Hokkaido local government.

Misconceived officially-sponsored agricultural improvement projects have also saddled many farmers in the region with substantial debts, and no prospect of rising incomes to repay them. This has led to interest in agricultural products with bigger margins, or ones where imports are at a disadvantage. Fresh milk, for example, is difficult to import because of its short shelf life, but Japan is not traditionally a milk-drinking nation so dairy processors have been developing new vitamin-enriched, low-fat milk beverages to attract health-conscious consumers.

Another tactic is to adopt organic methods because organically-produced vegetables are growing in popularity and attract a price premium.

Farmers are also developing sidelines to attract tourists such as farm restaurants and farm holidays.

Tourism is a relatively bright spot in the local economy. Japanese consumers have a healthy appetite for travel and leisure, and are showing a growing tendency to use more of their annual holiday entitlements.

Hokkaido is still sufficiently unspoilt compared with the rest of Japan to attract city dwellers looking for a safe taste of the great outdoors, and sports enthusiasts flock to Hokkaido's golf courses and ski slopes.

But the high cost of domestic travel in Japan means that Hokkaido is often at a disadvantage when compared with overseas destinations which have longer flight-times but cheaper air fares and hotels.

The balance could be shifted if current plans are realised for several new airlines which would offer cut-price flights between Hokkaido and key Japanese cities.

The local authorities have tried familiar tactics to boost the regional economy: business parks, encouragement of venture businesses, tax breaks and special deals for companies relocating from overseas or elsewhere in Japan.

None of this has met with great success. In fact, even Hokkaido's home-grown household names often transfer their head offices to Tokyo when they grow beyond a certain point.

The region would still like to develop a stronger manufacturing sector, but officials say that the new focus is on six likely growth areas for the next century: health and welfare, culture and leisure, support industries, information and telecommunications, housing, and environment and recycling.

More importantly, the overall emphasis is shifting to generating growth from within, rather than relying on external aid, particularly from the central government.

Hokkaido's isolated position, with not even a high-speed railway to link it to the bureaucratic hub of Tokyo, might be expected to increase its sense of detachment and self-reliance. But a reliance on direction from central government seems surprisingly engrained.

Hokkaido residents still lay claim to the pioneering spirit which drove their forebears to make a new home in Japan's remote north. A modern version of that spirit is needed now if Hokkaido is to move on from its dependent position.

Bethan Hutton

PROFILE Kansai region

Drive for place on global map

There has rarely been a time in recent history when the Kansai region, in west-central Japan, has figured so prominently in the national headlines as in the past few years.

Natural and man-made disasters, ranging from the Hanshin earthquake that devastated the city of Kobe in 1994 to an outbreak of food poisoning that killed several school children in Sakai city, and an oil spill off the coast of Fukui prefecture, have drawn the Japanese public's attention to Kansai in recent years.

But the naturally outgoing people of Kansai are trying to put their region in the international limelight for reasons of their own.

Kansai, which encompasses nine prefectures stretching from Fukui to the north-east to Tokushima on the island of Shikoku, wants to break out from under the shadow of Tokyo to win international recognition in its own right.

With a gross regional product of $832bn that ranks it above Canada and Spain in terms of the size of the economy, it is not surprising that Kansai people believe their region deserves wider recognition.

Kansai has Osaka as its central commercial city, the birthplace of many world-renowned companies ranging from Matsushita, the consumer electronics company, to Sumitomo, the trading company, and Nomura, the securities company.

To the north of Osaka is Kyoto, Japan's ancient capital which is also the home to innovative companies including Nintendo, the video games maker, and Kyocera which has made its name in ceramics and other high technology products.

Nevertheless, more than 90 per cent of foreigners based in the Kansai region do not think the name Kansai is known outside Japan, according to a study by the Centre for Industrial Renovation of Kansai.

To rectify the situation, the Kansai public authorities and business community have taken up the challenge of transforming Kansai into a region that will not only continue to be a key base for Japan's economic growth but will also be recognised globally as an attractive, dynamic centre.

The desire to put Kansai firmly on the global map was a key factor behind the drive to build Kansai International Airport, in the face of huge pressures, as its gateway to the rest of the world and a magnet for foreign visitors to the region.

The number of passengers on international flights to or from Osaka, the heart of the Kansai region, increased by 43 per cent in the airport's first year and a further 81 per cent in the year to September 1996. The region's share of all international passengers has risen from 15.6 per cent in 1993 to 22.2 per cent last year, according to the Centre for Industrial Renovation of Kansai.

The Kansai Science City was constructed as a way to attract the world's top scientists to the region and support research and development in advanced sciences and state-of-the-art technology.

Many buildings have been constructed, mainly in Osaka but also throughout the region, to house trade centres, convention halls, hotels and other facilities designed to make Kansai an attractive venue for globe-trotting businessmen as well as tourists. As a result, the number of international conventions held in the Kansai region has risen to exceed that in the Kanto region which includes Tokyo.

Kansai intends to build on this trend with further investments in infrastructure and by attracting internationally recognised events to the region.

The city of Osaka is the major shareholder in Universal Studios Japan, a huge theme park modelled on the Universal Studios park in Hollywood, that will be constructed on unused industrial land in western Osaka. The park, which is planned to open in 2001, is expected to generate revenues of more than Y70bn in its first year, with the number of annual visitors reaching 8m.

The local community has also launched a massive campaign to win the nomination as Japan's candidate site for the 2008 Olympics.

Planned expansion of Kansai International Airport will also focus attention on the region and a new terminal building for Kyoto station will be the centre of discussion as a very modern element in a traditional city better known for its ancient temples. Such efforts on the part of the community will help significantly to boost recognition of the Kansai region not only in Japan but also overseas. As the deregulation of markets and administrative reforms loosen Tokyo's influence and make Japan a less centralised country, Kansai with its vast economic resources and cultural heritage will enjoy further opportunities to shine.

Michiyo Nakamoto

PROFILE Kyushu

A model for the next century

The island of Kyushu, just off the southern tip of Honshu, Japan's largest island, is bustling with activity.

Having just hosted the annual meeting of the Asian Development Bank in May, the people of Kyushu are now turning their attention to the Pan Pacific Swim Meet in August and the World Track Finals in the autumn.

Fukuoka, Kyushu's largest city which hosted the ADB meeting as well as the Universiade or student Olympic Games two years ago, is in the middle of a construction rush that will see the creation of several new commercial and entertainment centres, an artificial island with residential and leisure facilities and one of Japan's largest yacht harbours.

Kitakyushu, to the north-east of the island, boasts its own Renaissance Project that aims to build the city into an international technology and commercial centre. Long an important shipping base, the city is updating its port facilities in an attempt to compete with Pusan, a stone's throw away in neighbouring South Korea, for the title of East Asia's hub port.

Kitakyushu is also building a new state-of-the-art airport on a landfill site which will be one of just four airports in Japan able to handle around-the-clock landings by jumbo jets when it opens in 2005.

In addition to the frenetic urban redevelopment, a network of highways has been built to cover the island of volcanoes and hot springs which spans an area the size of the Netherlands and has a gross domestic product equivalent to that of South Korea and Australia.

Numerous flights from neighbouring cities in Asia and beyond bring hundreds of thousands of business visitors and tourists to Kyushu. They visit theme parks such as the Huis Ten Bosch in Nagasaki, a replica of a Dutch city, or the Space World in Kitakyushu.

All this activity mirrors a distinct feeling among regional leaders that the 21st century belongs to Kyushu. Business leaders and bureaucrats alike are fond of telling visitors about the tremendous promise the island holds for economic growth in the years ahead.

That growth will be based on Kyushu's advantageous geographic location as the closest of Japan's four main islands to the rapidly growing economies of Asia, they say. Seoul is just over an hour's flight away, Shanghai, an hour and a half, and Hong Kong three hours.

Kyushu leaders believe that in order to take advantage of its proximity to Asia's growing economies, the region needs to improve its infrastructure and to publicise its potential as Asia's door into Japan, and Japan's gateway to the Asian continent.

Hence the rush to build convention halls, hotels and trade centres has been accompanied by energetic efforts to lure Asian events, such as the ADB meeting, to the island.

Kyushu is, indeed, well placed to take on this self-proclaimed role as Japan's link to Asia. As well as its geographic advantages, the island has been a centre of some of the high tech industries which are fuelling growth in the most vibrant Asian economies, such as semiconductors, information technology and vehicles.

The island also hopes to benefit from a surge in visitors from neighbouring countries and has supported substantial investments in theme parks, hotel and leisure complexes and amusement parks.

Meanwhile, Mr Wataru Aso, the governor of Fukuoka prefecture, has made it a priority to encourage the emergence of venture businesses in the region and has doubled the prefectural spending on venture capital from an initial Y5bn to Y10bn over 10 years.

Such venture companies are expected to spur the growth of new businesses that could become future engines of economic growth.

Kyushu needs these new outlets for its energies, to make up for the decline in mature industries which once supported the island's economy.

Nagasaki, famous for its hills and its Dutch heritage, was the cradle of Japan's shipbuilding industry where Mitsubishi Heavy Industries built its Nagasaki Shipyard and Machinery Works in 1868. Kitakyushu was the birthplace of Japan's steel industry in 1901.

Even the concentration of newer industries, such as cars and semiconductors, is increasingly threatened by the move of Japanese manufacturing to lower cost locations overseas, particularly in south-east Asia.

A dynamic Kyushu that can balance the need for economic development with the preservation of its natural beauty and laid-back culture, could serve as a model for the rest of Japan.

Michiyo Nakamoto

CURRENCIES AND MONEY

Pound and dollar continue ascent

MARKETS REPORT

By Simon Kuper

The pound and dollar yesterday extended their Friday gains against the D-Mark, thanks to stop-loss D-Mark sales by investors.

The pound rose 3.2 pfennigs and the dollar 2.9 pfennigs yesterday. In late trading they were at DM3.031 and DM1.799 against the D-Mark respectively. The pound has now gained 7.5 pfennigs since Thursday's London close, and the dollar 4.8 pfennigs.

The Anglo-Saxon currencies have benefited from their relatively high interest rates and from flows out of the D-Mark driven by worries over European monetary union. But Mr Ron Leven, currency strategist at J.P. Morgan in New York, stressed that yesterday's moves were technically driven. "I don't see any evidence of investors coming in and saying, 'Oh I have to own the dollar because I see it going to DM2.'" He said that helped by thin volumes, the pound broke a key level at DM3.00, while the dollar overcame resistance at DM1.7660 and DM1.7850 to the D-Mark. Mr Michael Paulus, vice president and head of sales at Bank of America in New York, said: "The market is saying, 'The trend is your friend.'"

The D-Mark revived only briefly yesterday on a report that an unnamed Bundesbank official had hinted that the bank might intervene if the dollar remained strong.

■ The Malaysian ringgit yesterday became the third Asian currency to be freed from its peg in two weeks, as Malaysia's Bank Negara gave in to speculators' pressure. But the currency's fall was far more modest than those of the Thai baht and the Philippine peso.

The ringgit, hit by contagion from the two previous devaluations, was trading at about M$2.5380 to the dollar late yesterday, down from M$2.5050 on Friday and below the M$2.5250 level which the central bank had defended since May.

Bank Negara did not let the ringgit fully off the leash, intervening after the currency fell below M$2.5500. Economists say the bank had abandoned its support of the ringgit at the old level after spending up to US$2bn defending the currency.

Mr Carlos Daurignac, currencies analyst at Credit Agricole Indosuez in London, said the ringgit had been vulnerable to contagion from Thailand partly because Malaysia's current account deficit was about 5 per cent of gross domestic product. "That's sustainable in normal circumstances, but we are not in normal circumstances," Mr Daurignac said. Mr David Simmonds, emerging markets analyst at Citibank in London, said: "The ringgit remains very firmly in the spotlight."

The baht, Indonesian rupiah and Philippine peso also suffered yesterday. The Thai central bank intervened to support the baht, saying it had fallen too far at Bt30 to the dollar – its lowest level since its devaluation. It closed at Bt29.90.

■ The Irish punt rose 1.8 pfennigs against the D-Mark to DM2.702, dragged upwards by sterling's strength. The punt is now perilously near the top of its 15 per cent fluctuation band within the European exchange-rate mechanism, and there is increasing market talk that Ireland may seek to revalue its currency. The Maastricht treaty says that any country wanting to join Emu must maintain a "stable currency" for two years beforehand.

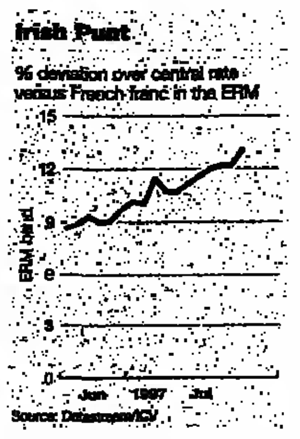
A stronger pont would allow Ireland to raise interest rates and slow down its booming economy. A higher punt against sterling would also reduce the inflationary risk posed by imports from the UK – the punt now buys only 0.894p in Britain.

■ The pound is gathering pace. Mr Michael Wallace, senior currency economist at MMS International in London, said it next faces serious resistance at DM3.05 to the D-Mark, and then at DM3.11. Mr Brian Marber, the technical analyst, said the strong upward trends on charts for most currencies against the D-Mark suggested that the latter would continue to take a beating. Mr Marber said that if the D-Mark really does stop falling, he will eat his own hat, that of Mr Hans Tietmeyer, the Bundesbank president, and Mr Tietmeyer's Lederhosen.

■ Pound in New York

Jul 14	—Latest—	— Prev. close —
£ spot	1.6893	1.6825
1 mth	1.6883	1.6810
3 mth	1.6853	1.6816
1 yr	1.6742	1.6705

Irish Punt



Source: Datastream/ICV

■ OTHER CURRENCIES

Jul 14	£	$
Czech Rp	57.6384 - 57.7553	34.1500 - 34.1990
Hungary	323.568 - 323.844	191.710 - 191.760
Iran	5066.40 - 5063.40	3000.00 - 3000.00
Kuwait	0.5111 - 0.5115	0.3028 - 0.3029
Poland	5.7081 - 5.7284	3.3820 - 3.3920
Russia	9745.36 - 9754.51	5774.00 - 5776.00
U.A.E.	6.1971 - 6.2021	3.6717 - 3.6725

POUND SPOT FORWARD AGAINST THE POUND

Jul 14		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	21.2733	+0.1763	810 - 866	21.3453	21.0201	21.2184	3.1	21.1067	3.1	20.6013	3.2	101.6
Belgium	(BFr)	62.4334	+0.5296	611 - 856	62.6330	61.7660	62.2534	3.5	61.8834	3.5	60.1334	3.7	101.1
Denmark	(DKr)	11.5144	+0.0976	093 - 195	11.5591	11.4032	11.4829	3.3	11.4189	3.3	11.1274	3.4	103.5
Finland	(FM)	8.8345	+0.0487	276 - 414	8.8740	8.8890	8.8082	3.4	8.8587	3.5	8.644	3.3	81.8
France	(FFr)	10.2075	+0.0822	036 - 113	10.2521	10.1388	10.1745	3.5	10.1175	3.5	9.842	3.6	103.5
Germany	(DM)	3.0236	+0.0249	216 - 253	3.0382	3.0008	3.0143	3.7	2.9952	3.8	2.9083	3.8	101.8
Greece	(Dr)	473.805	+2.757	330 - 029	473.682	471.158	475.588	-4.5	478.212	-3.7	495.58	-2.7	65.0
Ireland	(I£)	1.1192	+0.0021	177 - 208	1.1219	1.1148	1.1187	0.5	1.1176	0.7	1.1094	1.1	99.3
Italy	(L)	2937.22	+27.51	542 - 902	2945.82	2915.05	2937.3	0.0	2937.26	0.0	2924.88	0.1	78.3
Luxembourg	(LFr)	62.4334	+0.5296	611 - 856	62.6330	61.7660	62.2534	3.5	61.8834	3.5	60.1334	3.7	101.1
Netherlands	(Fl)	3.4036	+0.0262	023 - 053	3.4160	3.3731	3.3936	3.8	3.3727	3.7	3.2757	3.7	100.5
Norway	(NKr)	12.8181	+0.088	087 - 275	12.8837	12.6326	12.6856	3.1	12.6246	3.0	12.3556	2.9	98.2
Portugal	(Es)	305.008	+2.891	834 - 183	308.230	302.777	304.852	0.6	304.322	0.9	300.294	1.8	92.2
Spain	(Pta)	254.804	+1.71	303 - 705	256.490	253.190	254.289	1.5	253.889	1.7	249.169	2.1	78.5
Sweden	(SKr)	13.1682	+0.0358	570 - 794	13.2118	13.0801	13.1407	2.5	13.0822	2.8	12.8257	2.5	84.8
Switzerland	(SFr)	2.4892	+0.0154	878 - 906	2.4975	2.4742	2.4783	5.3	2.4557	5.4	2.3554	5.4	105.2
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	105.5
Ecu	-	1.5314	+0.0098	303 - 325	1.5363	1.5225	1.5281	2.8	1.521	2.7	1.4860	2.9	-
SDR†	-	1.220475											
Americas													
Argentina	(Peso)	1.6881	-0.0058	876 - 886	1.6925	1.6848	-	-	-	-	-	-	-
Brazil	(R$)	1.8236	-0.0067	230 - 242	1.8293	1.8205	-	-	-	-	-	-	-
Canada	(C$)	2.3100	-0.0121	089 - 111	2.3177	2.3058	2.3032	3.6	2.2895	3.5	2.2386	3.1	85.5
Mexico	(New Peso)	13.2836	-0.0165	712 - 959	13.2985	13.2480	-	-	-	-	-	-	-
USA	($)	1.6889	-0.0063	878 - 889	1.6933	1.6855	1.6866	1.2	1.683	1.2	1.666	1.3	103.0
Pacific/Middle East/Africa													
Australia	(A$)	2.2910	+0.0099	885 - 924	2.2987	2.2830	2.2904	0.3	2.2885	0.4	2.2734	0.5	90.8
Hong Kong	(HK$)	13.0827	-0.0442	779 - 874	13.1216	13.0808	13.0817	0.1	13.0753	0.2	13.0202	0.5	-
India	(Rs)	60.3146	-0.1912	545 - 746	60.4660	60.2090	60.5086	-3.9	60.9104	-4.0	62.5801	-3.8	-
Israel	(Shk)	6.0062	-0.0242	993 - 131	6.0341	5.9974	-	-	-	-	-	-	-
Japan	(Y)	192.126	-0.471	987 - 270	193.140	191.470	191.109	6.4	189.084	6.3	180.089	6.3	135.0
Malaysia	(M$)	4.3347	+0.0902	292 - 402	4.3484	4.2446	4.3389	-1.2	4.3469	-1.1	4.3656	-0.7	-
New Zealand	(NZ$)	2.5376	+0.0059	348 - 398	2.5412	2.5270	2.5377	0.1	2.5387	-0.1	2.5459	-0.3	108.7
Philippines	(Peso)	50.6493	-0.1889	901 - 084	51.8871	47.4124	50.8091	-3.8	51.0586	-3.2	52.1155	-2.9	-
Saudi Arabia	(SR)	6.3322	-0.0234	301 - 342	6.3507	6.3226	6.3287	0.7	6.3203	0.8	6.2868	0.6	-
Singapore	(S$)	2.4337	-0.0032	321 - 352	2.4417	2.4287	2.4291	2.3	2.419	2.4	2.3706	2.6	-
South Africa	(R)	7.6902	-0.0211	854 - 950	7.7130	7.6741	7.7509	-8.5	7.8688	-9.3	8.3057	-8.0	-
South Korea	(Won)	1505.12	-3.07	130 - 894	1509.16	1500.79	-	-	-	-	-	-	-
Taiwan	(T$)	47.1374	-0.142	896 - 851	47.2753	47.0743	47.1208	0.4	47.081	0.5	46.8834	0.5	-
Thailand	(Bt)	50.5646	-0.6124	652 - 640	51.7290	49.8290	50.9012	-8.0	51.3628	-6.3	52.393	-3.8	-

† Rates for Jul 11. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T. The exchange rates printed in this table are also available on the internet at http://www.FT.com

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jul 14		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P. Morgan index
Europe													
Austria	(Sch)	12.6008	+0.1504	969 - 046	12.6320	12.4600	12.5768	2.3	12.5276	2.3	12.3068	2.4	101.6
Belgium	(BFr)	36.9600	+0.45	600 - 000	37.0600	36.5050	36.905	2.4	36.7535	2.4	36.06	2.5	101.5
Denmark	(DKr)	6.8201	+0.0831	191 - 211	6.8348	6.7665	6.8084	2.1	6.7841	2.1	6.6777	2.1	103.0
Finland	(FM)	5.2920	+0.049	895 - 945	5.3158	5.2825	5.2806	2.6	5.2569	2.7	5.163	2.4	81.3
France	(FFr)	6.0460	+0.071	455 - 465	6.0659	6.0000	6.0345	2.3	6.0107	2.3	5.9018	2.4	103.2
Germany	(DM)	1.7909	+0.0213	904 - 914	1.7960	1.7757	1.7871	2.6	1.7792	2.6	1.7463	2.6	101.9
Greece	(Dr)	280.640	+2.657	590 - 690	281.620	278.790	281.355	-3.5	283.09	-1.8	291.14	-3.7	64.7
Ireland	(I£)	1.5095	-0.0085	070 - 100	1.5172	1.5058	1.5077	0.6	1.5058	0.5	1.5072	0.1	-
Italy	(L)	1739.75	+22.7	900 - 050	1742.94	1723.35	1741.52	-1.2	1744.53	-1.1	1747.95	-0.5	75.9
Luxembourg	(LFr)	36.9600	+0.45	600 - 000	37.0600	36.5050	36.905	2.4	36.7535	2.4	36.06	2.5	101.5
Netherlands	(Fl)	2.0181	+0.0241	158 - 164	2.0212	1.9948	2.0126	2.5	2.0033	2.5	1.9656	2.5	100.8
Norway	(NKr)	7.4726	+0.0604	705 - 772	7.4958	7.4050	7.4595	2.3	7.431	2.3	7.3193	2.1	94.5
Portugal	(Es)	180.680	+2.26	610 - 710	181.170	179.180	180.624	0.2	180.57	0.2	179.4	0.7	92.9
Spain	(Pta)	150.805	+1.57	760 - 820	151.300	149.800	150.78	0.4	150.565	0.6	149.41	0.9	76.3
Sweden	(SKr)	7.7997	+0.0501	959 - 034	7.8233	7.7542	7.7906	1.4	7.7713	1.5	7.6913	1.3	84.5
Switzerland	(SFr)	1.4744	+0.0148	738 - 748	1.4800	1.4645	1.469	4.4	1.4584	4.3	1.4129	4.2	105.1
UK	(£)	1.6883	-0.0063	878 - 889	1.6933	1.6855	1.6866	1.2	1.683	1.2	1.666	1.3	104.6
Ecu	-	1.1025	-0.0113	020 - 029	1.1100	1.0993	1.1039	-1.6	1.1072	-1.7	1.1227	-1.8	-
SDR†	-	0.72013											
Americas													
Argentina	(Peso)	0.9999	+0.0001	999 - 999	0.9999	0.9998	-	-	-	-	-	-	-
Brazil	(R$)	1.0802	+0.0001	801 - 802	1.0804	1.0799	-	-	-	-	-	-	-
Canada	(C$)	1.3680	-0.0002	680 - 685	1.3701	1.3672	1.3652	2.8	1.3595	2.6	1.3389	2.2	85.0
Mexico	(New Peso)	7.8665	+0.0195	830 - 730	7.8748	7.8620	7.9765	-13.8	8.1875	-16.2	9.099	-15.6	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	103.6
Pacific/Middle East/Africa													
Australia	(A$)	1.3569	+0.0108	565 - 574	1.3575	1.3555	1.3567	0.2	1.3561	0.2	1.3518	0.4	92.9
Hong Kong	(HK$)	7.7490	+0.0027	485 - 495	7.7505	7.7470	7.7485	-0.1	7.7504	-0.1	7.7527	0.0	-
India	(Rs)	35.7250	+0.02	000 - 500	35.7600	35.6900	35.8825	-4.6	36.1475	-4.7	37.36	-4.6	-
Israel	(Shk)	3.5576	-0.001	545 - 606	3.5666	3.5537	-	-	-	-	-	-	-
Japan	(Y)	113.800	+0.145	750 - 850	114.180	113.400	113.285	5.4	112.285	5.3	107.965	5.1	135.7
Malaysia	(M$)	2.5675	+0.0626	650 - 700	2.5750	2.5140	2.572	-2.1	2.581	-2.1	2.611	-1.7	-
New Zealand	(NZ$)	1.5032	+0.0114	024 - 040	1.5055	1.4998	1.504	-0.6	1.5064	-0.9	1.5165	-0.9	-
Philippines	(Peso)	30.0000	-	000 - 000	30.6400	28.0000	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7506	+0.0001	505 - 507	3.7508	3.7503	3.7513	-0.2	3.7523	-0.2	3.7569	-0.2	-
Singapore	(S$)	1.4415	+0.0035	410 - 420	1.4440	1.4395	1.4398	1.5	1.436	1.5	1.4165	1.7	-
South Africa	(R)	4.5550	+0.0045	535 - 565	4.5580	4.5470	4.5955	-10.7	4.675	-10.2	4.9775	-9.3	-
South Korea	(Won)	891.500	+1.5	500 - 500	893.600	888.100	-	-	-	-	-	-	-
Taiwan	(T$)	27.8200	+0.02	000 - 400	27.8500	27.8000	27.931	-0.5	27.94	-0.3	28.0325	-0.4	-
Thailand	(Bt)	29.9500	-0.25	000 - 000	30.8000	29.8000	30.395	-17.8	31.1	-15.4	32.33	-7.9	-

† SDR rate per $ for Jul 11. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Jul 11: Base average 1990=100. The exchange rates printed in this table are also available on the internet at http://www.FT.com

WORLD INTEREST RATES

MONEY RATES

July 14	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.00	2.50	-
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3.10	-	4.75
Germany	[illegible]	3	[illegible]	[illegible]	[illegible]	4.50	2.50	3.00
Ireland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	6.75
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.75	6.25	6.82
Netherlands	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	2.50	2.90
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	1.00	-
US	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	5.00	-
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
■ $ LIBOR FT London Interbank Fixing	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
US Dollar CDs	-	5.44	5.51	5.59	5.74	-	-	-
ECU Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
SDR Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo Mitsubishi, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Jul 14	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Danish Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
German Mark	3⅛ - 3	3⅛ - 3	3⅛ - 3	3⅛ - 3	[illegible]	[illegible]
Dutch Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
French Franc	3¼ - 3⅛	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portuguese Esc.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spanish Peseta	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling	6⅝ - 6⅜	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Swiss Franc	1⅜ - 1⅛	1⅜ - 1⅛	[illegible]	1½ - 1¼	[illegible]	[illegible]
Canadian Dollar	[illegible] - 3	3¼ - [illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US Dollar	5½ - 5⅜	5⅝ - 5½	[illegible]	[illegible]	[illegible]	[illegible]
Italian Lira	[illegible]	7 - 6⅞	[illegible]	[illegible]	[illegible]	[illegible]
Japanese Yen	[illegible] - ½	[illegible]	[illegible]	[illegible] - ½	[illegible]	[illegible]
Asian $Sing	1⅞ - 1¾	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris Interbank offered rate (Jul 11)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	96.55	96.55	+0.02	96.56	96.55	17,994	69,206
Dec	96.52	96.51	+0.01	96.53	96.50	4,651	35,490
Mar	96.47	96.48	+0.01	96.48	96.43	3,214	26,592

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	96.84	96.76	-0.06	96.84	96.77	46334	286057
Dec	96.74	96.64	-0.10	96.74	96.63	92688	264634
Mar	96.65	96.54	-0.11	96.67	96.52	80976	261572
Jun	96.52	96.40	-0.12	96.53	96.38	55781	187572

■ ONE MONTH EUROMARK FUTURES (LIFFE)* DM3m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jul	96.89	96.88	-0.02	96.89	96.89	100	431
Aug	-	96.83	-0.06	-	-	0	490
Sep	96.84	96.82	-0.04	96.84	96.84	100	3
Oct	-	96.81	-0.04	-	-	0	50

■ THREE MONTH EUROLIRA FUTURES (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	93.41	93.33	-0.05	93.41	93.32	13084	113738
Dec	93.81	93.73	-0.05	93.82	93.71	12005	91306
Mar	94.16	94.12	-0.04	94.20	94.11	5552	52514
Jun	94.48	94.40	-0.05	94.46	94.40	5134	39753

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	98.62	98.56	-0.06	98.63	98.53	8664	62939
Dec	98.49	98.42	-0.07	98.49	98.40	6089	45717
Mar	98.38	98.34	-0.05	98.36	98.30	1682	17372
Jun	98.24	98.19	-0.05	98.24	98.17	67	7261

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	-	99.31	-0.01	-	-	0	n/a
Dec	-	99.16	-0.01	-	-	0	n/a
Mar	99.00	99.00	-0.02	99.00	99.00	90	n/a

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	95.76	95.78	-0.04	95.78	95.75	502	8911
Dec	95.75	95.75	-0.04	95.76	95.75	182	6479
Mar	95.78	95.74	-0.04	95.78	95.74	146	4443
Jun	-	95.73	-0.04	-	-	0	3085

* LIFFE futures also traded on APT

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Sep	Dec	Mar	PUTS Sep	Dec	Mar
9325	0.19	0.58	0.96	0.11	0.10	0.09
9350	0.07	0.39	0.76	0.24	0.16	0.14
9375	0.02	0.24	0.57	0.44	0.26	0.20

Est. vol. total, Calls 1590 Puts 352. Previous day's open int., Calls 108208 Puts 56787

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Jul 14		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.44	16.35	4.843	1.793	4705	5.452	20.21	488.5	407.8	21.09	3.987	1.602	3.700	2.704	307.7	2.453
Denmark	(DKr)	54.22	10	8.865	2.626	0.972	2551	2.956	10.96	264.9	221.1	11.44	2.162	0.868	2.006	1.466	166.9	1.330
France	(FFr)	61.16	11.28	10	2.962	1.096	2878	3.335	12.36	298.8	249.4	12.90	2.439	0.980	2.263	1.654	188.2	1.500
Germany	(DM)	20.65	3.808	3.376	1	0.370	971.4	1.126	4.173	100.6	84.21	4.355	0.823	0.331	0.764	0.558	63.54	0.506
Ireland	(I£)	55.78	10.29	9.120	2.702	1	2624	3.041	11.27	272.5	227.5	11.77	2.224	0.894	2.064	1.509	171.7	1.368
Italy	(L)	2.126	0.392	0.348	0.103	0.038	100	0.116	0.430	10.38	8.668	0.448	0.085	0.034	0.079	0.057	6.541	0.052
Netherlands	(Fl)	18.34	3.383	2.999	0.888	0.329	862.9	1	3.707	89.61	74.80	3.869	0.731	0.294	0.679	0.496	56.45	0.450
Norway	(NKr)	49.48	9.125	8.089	2.396	0.887	2328	2.698	10	241.7	201.8	10.44	1.973	0.793	1.831	1.338	152.3	1.214
Portugal	(Es)	20.47	3.775	3.347	0.991	0.367	963.0	1.116	4.137	100	83.47	4.317	0.816	0.328	0.757	0.554	62.99	0.502
Spain	(Pta)	24.52	4.522	4.009	1.188	0.440	1154	1.337	4.956	116.8	100	5.172	0.978	0.393	0.907	0.663	75.46	0.601
Sweden	(SKr)	47.41	8.744	7.752	2.296	0.850	2231	2.585	9.582	231.6	193.3	10	1.890	0.759	1.754	1.282	145.8	1.163
Switzerland	(SFr)	25.08	4.626	4.101	1.215	0.450	1180	1.367	5.069	122.5	102.3	5.290	1	0.402	0.928	0.678	77.18	0.615
UK	(£)	62.43	11.51	10.21	3.024	1.119	2937	3.404	12.62	305.0	254.8	13.17	2.489	1	2.310	1.688	192.1	1.531
Canada	(C$)	27.03	4.984	4.416	1.309	0.484	1271	1.473	5.462	132.0	110.2	5.700	1.078	0.433	1	0.731	83.17	0.663
USA	($)	36.98	6.820	6.046	1.791	0.663	1740	2.016	7.474	180.7	150.8	7.800	1.474	0.592	1.368	1	113.8	0.907
Japan	(Y)	32.50	5.993	5.313	1.574	0.583	1529	1.772	6.568	158.8	132.5	6.854	1.296	0.520	1.202	0.879	100	0.797
Ecu	-	40.77	7.519	6.666	1.974	0.731	1916	2.223	8.240	199.2	166.3	8.599	1.626	0.653	1.509	1.103	125.5	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	0.5635	0.5605	-0.0058	0.5654	0.5590	36,289	110,694
Dec	0.5639	0.5636	-0.0064	0.5645	0.5636	150	1,111
Mar	0.5676	0.5676	-0.0061	0.5680	0.5676	123	345

■ JAPANESE YEN FUTURES (IMM) Yen 12.5m per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	0.8848	0.8842	-0.0014	0.8898	0.8840	15,296	57,143
Dec	0.8967	0.8974	+0.0003	0.8974	0.8965	612	1,431
Mar	-	0.9068	-	-	-	1	108

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	0.6866	0.6825	-0.0058	0.6876	0.6816	14,131	46,369
Dec	0.6900	0.6898	-0.0057	0.6908	0.6892	112	1,220
Mar	-	0.7031	-	-	-	500	568

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	1.6884	1.6878	-0.0010	1.6888	1.6824	8,366	66,325
Dec	1.6800	1.6830	-	1.6840	1.6780	22	884
Mar	-	1.6770	-0.0002	-	1.6720	1	3

UK INTEREST RATES

LONDON MONEY RATES

Jul 14	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	8 - 6¼	[illegible]	[illegible]	[illegible]	[illegible]	7½ - 7⅜
Sterling CDs	-	-	[illegible]	[illegible]	[illegible]	[illegible]
Treasury Bills	-	-	[illegible]	[illegible]	-	-
Bank Bills	-	-	[illegible]	[illegible]	[illegible]	-
Local authority deps.	6¼ - 6⅛	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Discount Market deps	[illegible]	[illegible]	-	-	-	-

UK clearing bank base lending rate 6¾ per cent from Jul 10, 1997

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	5	5	4¾

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1½pc.
Ave. tender rate of discount on Jul 11, 6.5951pc. ECGD fixed rate Stg. Export Finance. Make up day Jun 30, 1997. Agreed rate for period Jul 26, 1997 to Aug 25, 1997, Scheme III 7.98pc. Reference rate for period May 31, 1997 to Jun 30, 1997, Schemes IV & V 6.738pc. Finance House Base Rate 7pc from Jul 1, 1997

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	92.85	92.84	-0.02	92.85	92.82	11725	121504
Dec	92.65	92.61	-0.04	92.66	92.60	15294	130360
Mar	92.55	92.50	-0.04	92.55	92.49	11020	102393
Jun	92.54	92.46	-0.05	92.54	92.46	7274	67667
Sep	92.57	92.51	-0.05	92.57	92.50	3732	46507

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Sep	Dec	Mar	PUTS Sep	Dec	Mar
9275	0.16	0.10	0.14	0.07	0.24	0.39
9300	0.03	0.03	0.06	0.19	0.42	0.56
9325	0	0	0.02	0.41	0.64	0.77

Est. vol. total, Calls 571 Puts 1403. Previous day's open int., Calls 144836 Puts 137501

EMS EUROPEAN CURRENCY UNIT RATES

Jul 14	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Finland	5.85424	5.86350	-0.00644	0.16	3.51	-1
Italy	1906.48	1924.10	-1.8	0.92	2.73	-7
Portugal	197.398	199.885	+0.324	1.26	2.39	-8
Ireland	0.798709	0.732478	-0.004279	-8.29	13.05	56
Spain	163.826	166.945	-0.084	1.90	1.74	-13
Denmark	7.34555	7.54866	+0.01415	2.77	0.89	-19
Netherlands	2.16979	2.23103	+0.00465	2.82	0.83	-21
Germany	1.92573	1.98180	+0.00408	2.90	0.75	-29
Austria	13.5485	13.9425	+0.029	2.91	0.75	-21
Belgium	39.7191	40.9068	+0.0815	2.99	0.67	-22
France	6.45863	6.69616	+0.01445	3.68	0.00	-31
NON ERM MEMBERS						
Greece	295.269	310.640	-0.085	5.21	-1.45	-
UK	0.793103	0.655047	-0.006847	-17.41	25.53	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate. 17/9/92: Sterling suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Jul	Aug	Sep	PUTS Jul	Aug	Sep
1.680	1.13	2.38	2.88	-	1.38	2.06
1.690	0.22	1.83	2.41	0.03	1.81	2.51
1.700	-	1.38	1.96	0.75	2.38	3.05

Previous day's vol., Calls 1,511 Puts 3,100. Prev. day's open int., Calls 30,750 Puts 35,824

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

Strike Price	CALLS Jul	Aug	Sep	PUTS Jul	Aug	Sep
0.570	-	0.38	0.64	0.60	0.92	1.02
0.575	-	0.23	0.46	1.06	1.18	1.35
0.580	-	0.15	0.32	1.58	1.59	1.68

Previous day's vol., Calls 1,982 Puts 2,339. Prev. day's open int., Calls 11,913 Puts 16,107

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	94.24	94.22	-0.01	94.24	94.22	43,522	538,008
Oct	94.03	94.01	-0.01	94.03	94.00	53,650	68,473
Dec	94.07	94.05	-0.01	94.07	94.06	60,933	452,476

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	94.90	94.89	-0.01	94.90	94.89	403	7,859
Dec	-	94.76	-	-	-	52	801

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS Jul	Aug	Sep	Dec	PUTS Jul	Aug	Sep	Dec
9675	0.03	0.05	0.07	0.04	0	0.02	0.04	0.15
9700	0	0	0.01	0.01	0.22	0.22	0.23	0.37
9725	0	0	0	0	0.47	0.47	0.47	0.61

Est. vol. total, Calls 8539 Puts 5582. Previous day's open int., Calls 340247 Puts 236640

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Sep	Dec	Mar	PUTS Sep	Dec	Mar
9875	0.05	0.07	0.10	0.24	0.40	0.51
9900	0.01	0.03	0.04	0.45	0.61	0.70

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 3025 Puts 3255

BASE LENDING RATES

	%		%		%
Adam & Company	6.75	Duncan Lawrie	6.75	Scottish Widows Bank	6.75
Allied Irish Bank (GB)	6.75	Exeter Bank Limited	7.75	●Singer & Friedlander	6.75
●Henry Ansbacher	6.75	Financial & Gen Bank	7.50	●Smith & Williamson Secs	6.75
Bank of Baroda	6.75	●Robert Fleming & Co	6.75	Sun Banking Corp Ltd	3.75
Banco Bilbao Vizcaya	6.75	●Guinness Mahon	6.75	TSB	6.75
Bank of Cyprus	6.75	Habib Bank AG Zurich	6.75	United Bank of Kuwait	6.75
Bank of Ireland	3.75	●Hambros Bank	6.75	Unity Trust Bank Plc	6.50
Bank of India	3.75	Heritable & Gen Inv Bk	6.75	Western Trust	6.50
Bank of Scotland	3.75	C. Hoare & Co	6.75	Whiteaway Laidlaw	6.75
Barclays Bank	6.75	Hongkong & Shanghai	6.75	Yorkshire Bank	6.75
Brit Bk of Mid East	6.50	Investec Bank (UK) Ltd	6.75		
●Brown Shipley & Co Ltd	6.75	Julian Hodge Bank	6.75	● Members of London Investment Banking Association	
Citibank NA	6.50	●Leopold Joseph & Sons	6.75	* In administration	
Clydesdale Bank	6.75	Lloyds Bank	6.75		
The Co-operative Bank	6.75	Midland Bank	6.75		
Coutts & Co	6.75	NatWestminster	6.75		
Cyprus Popular Bank	6.75	●Rea Brothers	6.75		
		Royal Bk of Scotland	6.75		

Germany's oil sales to start in August

By Peter Norman in Bonn

The German government will probably begin selling its 7.3m tonne federal oil reserve in the first week of August, when it expects to accept the first tenders for the crude.

The Bonn economics ministry announced yesterday that it will offer the oil in blocks of about 450,000 cubic metres, which is equivalent to about one day's national consumption or 388,350 tonnes.

The oil can be ecquired by the tankful from the storage depot of Nord-West Oelleitungsgesellschaft near Wilhelmshaven, the north German deep water port, where the oil is stored in specially constructed underground caverns.

The federal reserve, which covers about 19 days' consumption, was assembled between 1973 and 1981 during the first and second oil crises, in line with an international agreement obliging the industrialised member countries of the International Energy Agency to hold 90 days in stocks. The Bonn government has rejected IEA criticism of the planned sale.

Germany holds reserves totalling 118 days' consumption. It plans to raise DM400m ($228.5m) from oil sales this year and DM500m and DM450m in 1998 and 1999, respectively, to cap borrowing and to help meet the budgetary costs of high unemployment.

The sales, signalled in last week's draft federal budget, will leave a reserve covering about 99 days' consumption, of which 80 days will be a strategic reserve held by the Erdölbevorratungsverband, an association of German oil companies, with the rest held as shorter-term stocks at refineries.

The ministry said the federal oil reserve was made up of 16 different types of oil that had been mixed in storage.

Heavy oils, with an average API value of 30.5, account for 45 per cent of the reserve while the rest, with an average API of 35.5, comprise light and medium oils from the Gulf region, the North Sea and West Africa.

A typical average quality would comprise 50 per cent Iranian heavy, 25 per cent Arabian light and 25 per cent Kirkuk crude.

The tenders will be handled by the Erdölbevorratungsverband, which will act as agent for the government.

Tight supply lifts copper

MARKETS REPORT

By Kenneth Gooding and Gary Mead

The London Metal Exchange three-month zinc price pushed through the $1,500 a tonne level to a 6¾-year high but copper claimed most of the attentioo because of a shortage of metal for nearby delivery.

The premium for copper for immediate delivery, compared with delivery in three months, jumped to $240-$260 a tonne from the $130-$140 seen on Friday.

Mr David King, LME chief executive, said he continued to watch the copper market closely but insisted that yesterday's ring trading was "totally orderly".

Traders expected copper market tightness to last another two weeks. However, the big premium for copper for immediate delivery was likely to suck metal into LME stocks. The exchange reported a 2,075 tonne rise yesterday but, at 141,200 tonnes, copper stocks remained at an historically low level.

Zinc was $1,502 a tonne in late trading, up $16. Traders suggested that producer selling would probably keep prices near the $1,500 level, at least temporarily.

Forecasts of continued mild weather for the all-important Brazilian coffee plantations helped ease the price for robusta coffee futures on the London International Financial Futures Exchange yesterday, where the September contract closed $40 down at $1,735 a tonne, the day's lowest point. It had earlier traded as high as $1,785, but news of slackening demand was an additional factor behind the day's lacklustre mood.

Elsewhere on Liffe cocoa futures also finished lower, with total volume at just 2,100 lots. The benchmark September contract ended £7 lower, at £1,033 a tonne, which was also the day's highest point. Sterling's strength against other currencies, as well as selling by speculators were seen by traders as pushing the contract down.

On the International Petroleum Exchange the leading indicator for world oil prices, Brent crude, was hit by news that Iraq had moved closer towards resuming oil sales. In afternoon trading in London the September future slumped 21 cents to $17.88 a barrel, though it later recovered to $17.99 a barrel. The UN said yesterday it had finalised talks with Iraq on a food distribution plan, opening the way for resumed oil exports.

Bulgaria looks to its farms

At milking time, a herd of cows blocks the main street in the southern Bulgarian village of Koprivlen. When the cowman disappears each animal makes its way home unaccompanied.

More than 80 per cent of Bulgaria's livestock population is privately owned, following the break-up of collective farms with the demise of communism. But herd numbers have shrunk dramatically, a result of the chaotic privatisation of land, animals and machinery in the early 1990s.

Livestock belonging to collective farms was distributed indiscriminately to householders, who often lacked cash to feed their newly acquired animals and experience of looking after them.

The result was widespread slaughtering of cows, including breeding stock, for food. The cattle population had fallen to 358,000 at the beginning of 1997 from 648,000 in 1989, according to the national statistical service.

Analysts say it will take three to five years to overcome the disastrous effects of the ill-prepared transition and put Bulgaria's farm sector on the path to growth.

Yet with its rich plains, abundance of water and year-round pastures, Bulgaria has the potential to become a significant exporter of farm products.

The new government has made land reform a priority. It pledges to complete the issue of titles to owners this year, which would open the way for consolidation of small plots into larger holdings and encourage development of a land market.

About 70 per cent of the 6.8m hectares included in the privatisation programme has been returned to pre-communist owners and their descendants. But titles have been issued for only 5 per cent of holdings. Although another 30 per cent of privatised land is registered under a temporary arrangement intended to make it possible to rent or lease landholdings, large tracts of arable land remain uncultivated.

Bulgaria's private producers now grow more than 70 per cent of farm output on holdings averaging less than one hectare. While some co-operatives have been set up, lack of funds has curtailed their productivity. The sector remains short of machinery, with much equipment stolen or destroyed during the privatisation process.

"The machinery that has survived is too big and powerful to be used on smallholdings. We need as many as 250,000 tractors and small mechanical cultivators. Farming has become labour-intensive, as people move back to the villages," said Ms Nelly Stefanova, chairperson of Agricultural Credit Centrale, a state agency which provides loans for farm improvement.

Employment in agriculture has risen to 24 per cent of the workforce as older Bulgarians have returned to cultivate their holdings. In addition to unemployed industrial workers, pensioners moved to the countryside to avoid the effects of last winter's economic collapse.

The switch to subsistence farming has caused a sharp reduction in wheat output. From being self-sufficient in the communist era – and in some years exporting small quantities to the Soviet Union – Bulgaria will have to import wheat to cover a projected shortfall this year of 1m tonnes.

Annual wheat production has fallen from more than 5m tonnes in the mid-1980s to a projected 2.4m tonnes this year. Apart from the absence of harvesting machinery, farmers have little spare cash to buy fertilisers and pesticides. They have also been subject to bullying by middlemen working on behalf of Bulgarian companies that last year bought wheat cheaply and made substantial profits through illegal exports.

Private farmers say their preferred crop is tobacco, a traditional export commanding a high cash price. This year, growers are expected to produce 65,000 tonnes of oriental tobacco compared with 42,000 tonnes in 1996. But this is low compared with annual output of around 150,000 tonnes under communism, when a high percentage of production went to other Comecon countries.

In Koprivlen, farmers are hoping to double tobacco production this year after joining forces to repair an irrigation system that had been abandoned since the collapse of communism.

Kerin Hope and Theodor Troev

Bulgarian wheat

Year	Production tonnes m	Export tonnes
1989	5.4	454,000
1990	5.3	446,000
1991	4.5	109,000
1992	3.4	327,000
1993	3.6	46,600
1994	3.7	14,000
1995	3.4	825,000

Very high 1995 export figure indicates illicit exports of wheat, say government officials
Source: Ministry of Agriculture

COMMODITIES NEWS DIGEST

Fletcher Canada shuts three plants

Fletcher Challenge Canada closed its three British Columbia pulp and paper mills yesterday as workers at the company went on strike demanding greater job security. The outcome of the strike was seen likely to set a precedent across the province, where the government and unions want to increase the number of jobs in the sector and the forest industry is demanding more flexibility from workers. The company, in which New Zealand's Fletcher Challenge holds a majority stake, and the union representing its 2,400 employees are predicting the strike could last several months.

The Pulp, Paper and Woodworkers of Canada union wants the company to create additional jobs through the elimination of overtime and other measures. The company, which reported a C$14m (US$10m) loss on sales of C$437m in the quarter ended March 31, is demanding greater flexibility to contract out work and reduce the size of its workforce, practices agreed to by the union in eastern Canada. Financially-troubled Skeena Cellulose is making the same demands of its employees before re-opening a British Columbia pulp mill closed last month.

The provincial forest industry, burdened by high costs and strict government regulation, lost C$290m last year and is expected to break even this year, according to Price Waterhouse. In spite of the troubled state of the industry, British Columbia's forestry workers have been encouraged by the province's left-leaning government and have adopted a tough negotiating stance in the face of potential job cuts.

Scott Morrison, Vancouver

PERUVIAN PRIVATISATION

Centromin sale continues

Privatisation of the assets of Centromin, Peru's state-owned mining and refining giant, continued yesterday in spite of Friday's setback when Industrias Peñoles unexpectedly announced it would not after all be taking control of the metallurgical complex MetalOroya.

The Mexican decision not to proceed came at the 11th hour. Peñoles had placed a generous valuation of $185m on 50 per cent of MetalOroya when it was auctioned on April 18. This was well ahead of offers of $121m from Doe Run of the US, a subsidiary of the Renco group, and the $85m bid by Switzerland's Glencore. In addition, the Mexicans subsequently announced they would buy a further percentage from the Peruvian state making a total investment of $226.5m.

In a curt communique from Mexico City, Peñoles said simply the "requirements fixed to guarantee the adequate profitability of the investment had not come about". Sources in the Peruvian privatisation office said Peñoles had attempted to re-negotiate certain conditions after the auction, which had proved unacceptable.

Centromin's privatisation committee immediately offered MetalOroya to Doe Run, the runner-up at April's auction. The US company has expressed continued interest in the smelters and refineries and will give a definite response once financing hostilities have been evaluated. Doe Run has until September to take up the offer.

Sally Bowen, Lima

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1559.5-60.5	1587-88
Previous	1541-42	1568.5-70.0
High/low		1597/1582
AM Official	1561.5-62.0	1589-90
Kerb close		1584-84
Open int.	265,403	
Total daily turnover	145,608	

ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1405-10	1435-40
Previous	1395-400	1425-28
High/low		1445/1428
AM Official	1403-05	1433-38
Kerb close		1435-40
Open int.	5,153	
Total daily turnover	2,090	

LEAD ($ per tonne)

	Cash	3 mths
Close	655-6	669-70
Previous	656.5-57.5	668-69
High/low		674/657
AM Official	662-62.5	674-75
Kerb close		656-9
Open int.	36,777	
Total daily turnover	18,541	

NICKEL ($ per tonne)

	Cash	3 mths
Close	6795-805	6910-20
Previous	6825-35	6940-45
High/low		6980/6860
AM Official	6790-800	6914-15
Kerb close		6880-90
Open int.	51,935	
Total daily turnover	22,148	

TIN ($ per tonne)

	Cash	3 mths
Close	5560-70	5612-14
Previous	5510-20	5560-70
High/low		5630/5550
AM Official	5545-55	5595-600
Kerb close		5590-95
Open int.	13,591	
Total daily turnover	5,190	

ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1504-05	1505-06
Previous	1481-82	1487-88
High/low		1508/1482
AM Official	1498-98.5	1497.5-98.0
Kerb close		1500-01
Open int.	96,819	
Total daily turnover	39,668	

COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	2545-50	2313-14
Previous	2427-30	2283-84
High/low	2570/2495	2318/2290
AM Official	2522-25	2309-11
Kerb close		2315-18
Open int.	158,881	
Total daily turnover	98,023	

LME AM Official £/$ rate: 1.6881
LME Closing £/$ rate: 1.6895
Spot: 1.6881 3 mths: 1.6851 6 mths: 1.6791 9 mths: 1.6730

HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
[illegible]						

PRECIOUS METALS

LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold (Troy oz)	$ price	£ equiv	SFr equiv
Close	320.50-321.00		
Opening	321.70-322.20		
Morning fix	321.35	190.52	474.63
Afternoon fix	321.70	190.24	474.03
Day's High	322.20-322.50		
Day's Low	320.60-320.90		
Previous close	320.00-320.50		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	3.40	6 months	3.51
2 months	3.43	12 months	3.72
3 months	3.47		

Silver Fix	p/troy oz.	US cts equiv.
Spot	257.45	434.25
3 months	261.10	439.10
6 months	264.90	444.00
1 year	272.95	454.50

Gold Coins	$ price	£ equiv.
Krugerrand	320-322	189-191
Maple Leaf		
New Sovereign	75-78	44-46

Precious Metals continued

GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	320.1	-1.5	320.0	320.8	-	[illegible]
Aug	320.8	-1.4	323.4	320.0	21,220	[illegible]
Sep	321.4	-1.4	-	-	4	[illegible]
[illegible]						

PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

[illegible]

PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

[illegible]

SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

[illegible]

ENERGY

CRUDE OIL NYMEX (1,000 barrels, $/barrel)

[illegible]

CRUDE OIL IPE ($/barrel)

[illegible]

HEATING OIL NYMEX (42,000 US galls; c/US galls)

[illegible]

GAS OIL IPE ($/tonne)

[illegible]

NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

[illegible]

UNLEADED GASOLINE NYMEX (42,000 US galls; c/US galls)

[illegible]

GRAINS AND OIL SEEDS

WHEAT LIFFE (100 tonnes; £ per tonne)

[illegible]

WHEAT CBT (5,000bu min; cents/60lb bushel)

[illegible]

MAIZE CBT (5,000 bu min; cents/56lb bushel)

[illegible]

BARLEY LIFFE (100 tonnes; £ per tonne)

[illegible]

SOYABEANS CBT (5,000bu min; cents/60lb bushel)

[illegible]

SOYABEAN OIL CBT (60,000lbs; cents/lb)

[illegible]

SOYABEAN MEAL CBT (100 tons; $/ton)

[illegible]

POTATOES LIFFE (20 tonnes; £ per tonne)

[illegible]

FREIGHT (BIFFEX) LIFFE ($10/index point)

[illegible]

	Close	Prev
BFI	1372	1371

FUTURES DATA
All futures data supplied by CMS.

SOFTS

COCOA LIFFE (10 tonnes; £/tonne)

[illegible]

COCOA CSCE (10 tonnes; $/tonnes)

[illegible]

COCOA (ICCO) (SDR's/tonne)

[illegible]

COFFEE LIFFE (5 tonnes; $/tonne)

[illegible]

COFFEE 'C' CSCE (37,500lbs; cents/lbs)

[illegible]

COFFEE (ICO) (US cents/pound)

[illegible]

WHITE SUGAR LIFFE (50 tonnes; $/tonne)

[illegible]

SUGAR '11' CSCE (112,000lbs; cents/lbs)

[illegible]

COTTON NYCE (50,000lbs; cents/lbs)

[illegible]

ORANGE JUICE NYCE (15,000lbs; cents/lbs)

[illegible]

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open Interest totals are for all traded months.

Tea

The Tea Brokers' Association reports that there was improved demand and that in landed teas, coloury, brighter East Africans advanced 2 pence to 4 pence, while light liquoring types tended lower. Plainer central Africans were generally dearer. Offshore: there was very strong competition with prices gaining 5 pence to 15 pence. Quotations for this sale: Landed: best available 135p; good 104p; good medium 130p; medium 122p; low medium 99p. The highest price realised this week for Landed was 135p for a Rwanda PF1, and for Offshore was 137p for a Kenya PF1.

MEAT AND LIVESTOCK

LIVE CATTLE CME (40,000lbs; cents/lbs)

[illegible]

LEAN HOGS CME (40,000lbs; cents/lbs)

[illegible]

PORK BELLIES CME (40,000lbs; cents/lbs)

[illegible]

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

ALUMINIUM (99.7%) LME

[illegible]

COPPER (Grade A) LME

[illegible]

COFFEE LIFFE

[illegible]

COCOA LIFFE

[illegible]

BRENT CRUDE IPE

[illegible]

LONDON SPOT MARKETS

CRUDE OIL FOB (per barrel)

		+or-
Dubai	$16.78-6.85	-0.075
Brent Blend (dated)	$17.83-7.85	-0.17
Brent Blend (Aug)	$17.88-7.90	-0.17
W.T.I.	$19.00-9.01w	-0.335

OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$182-184	-2
Gas Oil	$161-164	-1
Heavy Fuel Oil	$80-82	+0.5
Naphtha	$174-176	+1
Jet fuel	$176-178	
Diesel	$163-165	-2

NATURAL GAS (Pence/therm)

Bacton (Aug)	9.40-9.50	+0.15

Petroleum Argus. Tel. London (0171) 359 8792

OTHER

Gold (per troy oz)	$320.75	+0.50
Silver (per troy oz)	430.00c	-9.00
Platinum (per troy oz.)	$405.00	+1.00
Palladium (per troy oz.)	$172.00	+3.00
Copper	114.0c	-4.0
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	13.77r	+0.25
Tin (New York)	[illegible]	
Cattle (live weight)	102.04p	+1.55*
Sheep (live weight)	117.31p	-0.29*
Pigs (live weight)	88.46p	-1.05*
Lon. day sugar (raw)	$268.20	+2.00
Lon. day sugar (wte)	$326.40	+2.40
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£109.00	
Wheat (US Dark North)	Unq	
Rubber (Aug)	59.00p	
Rubber (Sep)	59.50p	
Rubber (KL RSS No1)	323.5r	+1.5
Coconut Oil (Phil)	[illegible]	-10.0
Palm Oil (Malay.)	[illegible]	+5.0
Copra (Phil)	[illegible]	
Soyabeans (US)	204.0	+5.0
Cotton Outlook 'A' index	80.00c	-0.25
Wooltops (64s Super)	430p	-1

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. [illegible]

INDICES

Reuters (Base: 18/9/31 = 100)

Jul 14	Jul 11	month ago	year ago
1900.8	1888.1	2002.3	1982.3

CRB Futures (Base: 1967 = 100)

Jul 11	Jul 10	month ago	year ago
233.52	232.70	[illegible]	[illegible]

GSCI Spot (Base: 1970 = 100)

Jul 11	Jul 10	month ago	year ago
[illegible]	[illegible]	[illegible]	[illegible]

LME WAREHOUSE STOCKS (tonnes)

Aluminium	[illegible]	to	[illegible]
Aluminium alloy	[illegible]	to	[illegible]
Copper	+2,075	to	141,200
Lead	[illegible]	to	[illegible]
Nickel	[illegible]	to	[illegible]
Zinc	[illegible]	to	[illegible]
Tin	[illegible]	to	[illegible]

JOTTER PAD

CROSSWORD

No.9,427 Set by GALAPAGOS

ACROSS

1 Standing out against reduction of flavouring acceptable to old American (11)
7 Cloud in faded image (3)
9 The first clean return results in break out (5)
10 He gets drinks to insinuate himself; the parasite (9)
11 Off-key character without member's support (5-4)
12 Big day returns for poet (5)
13 Most active of the French mill about in high road (7)
15 Soldiers in race return at medium pace (4)
18 A science graduate contrived to get crust (4)
20 Suffer to keep up (7)
23 Champion loses lead, just missing gold (5)
24 Lighter left superfluous material (9)
26 Getting ready for difficult paper round (9)
27 Dead broke before many made contribution (5)
28 Grooving breeds sexual excitement (3)
29 Swimmers tend to be quiet when approaching boats (5,6)

DOWN

1 Not all Indians show up, being artful (8)
2 State supports a unit made up of sailors (8)
3 Irishman on church land (5)
4 Mobile retail outlet (3,4)
5 Backup advanced on first order; that's rich! (7)
6 Arrange promise on board, encouraging mutiny (9)
7 Doctor works on unknown illness (6)
8 Mother Macready's first day brings riches (6)
14 Having doubts, turned centaur in (9)
16 Raol and Dave almost fall out after first Saturday in Brazilian port (8)
17 Breaks in and is turned out (8)
19 South African embracing son is raised to be more domineering ((7)
20 Part member confronts full member about roofing (7)
21 Flyer is big attraction at funfair (6)
22 17 without point: still without point (6)
25 Reluctant student at first bearing takes in nothing (5)

Solution to Saturday's prize puzzle on Saturday July 26.
Solution to yesterday's prize puzzle on Monday July 28.

هكذا من الاصل

etcher Canada
its three plan
Pattern sale continues
CROSSWORD

FT MANAGED FUNDS SERVICE

Offshore Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

[illegible]

BERMUDA (REGULATED)(**)

[illegible]

GUERNSEY (SIB RECOGNISED)

[illegible]

GUERNSEY (REGULATED)(**)

[illegible]

IRELAND (SIB RECOGNISED)

[illegible]

IRELAND (REGULATED)(**)

[illegible]

ISLE OF MAN (SIB RECOGNISED)

[illegible]

ISLE OF MAN (REGULATED)(**)

[illegible]

JERSEY (SIB RECOGNISED)

[illegible]

JERSEY (REGULATED)(**)

[illegible]

LUXEMBOURG (SIB RECOGNISED)

[illegible]

FT MANAGED FUNDS SERVICE

Offshore Funds and Insurances

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

BAII Asset Management Ltd

Bank Von Ernst & Cie AG

GT Global

HSBC Investment Funds Luxembourg SA (u)

Morgan Stanley Sicav - Contd.

ACM Offshore Funds - Contd.

LUXEMBOURG (REGULATED)(**)

OFFSHORE INSURANCES

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Offshore Insurances and Other Funds

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OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

CHEMICALS - Cont.

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Cont.

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Cont.

HOUSEHOLD GOODS

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

هكذا من الاصل

LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MEDIA - Cont.

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PROPERTY

[illegible]

PROPERTY - Cont.

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

RETAILERS, GENERAL - Cont.

[illegible]

SUPPORT SERVICES

[illegible]

SUPPORT SERVICES - Cont.

[illegible]

TELECOMMUNICATIONS

[illegible]

TEXTILES & APPAREL

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

AIM

[illegible]

AIM - Cont.

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

Toronto-Dom C$		18⅞	+⅜	18⅝	11⅛	5,533	2.8
Trans Can Pipe C$ ♥		11⅜	-⅛	12⅜	9⅝	2,580	4.2
Western Star Trucks C$		17⅛	+⅜	31⅝	14¾	183.6	-

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	52 week low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind R		£28¼	----	*£28½	£20¼	2,011	2.7	Φ
Barlow	♣†	981½	+¼	972½	£5¼	1,338	2.2	14.0
Gold Flds Prop R	†	169	+½	188½	120	17.3	5.0	13.3
SA Brews		£18⅝	+⅝	£19⅞	£13¼	5,384	2.0	Φ
Standard Bank		£27⅝	+⅛	£30	£21	3,321	1.9	Φ
Tiger Oats	†	1002	----	1100	790	1,514	1.8	19.7
Tongaat-Hulett		729¼xd	+2¾	911	675¼	798.1	2.5	Φ

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Φ Figures or report awaited
- ♥ Rule 21(a)(iv) Overseas Incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- †‡ Rule 4.2(a) Irish incorporated non-listed companies
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue
- ◆ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♣ Deregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
o Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
x Dividend yield excludes a special payment

F Yield based on prospectus or other official estimates for 1996-97
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1997.
K Yield based on prospectus or other official estimates for 1996
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1997-98
N Dividend is paid in whole or part as a

FID (Foreign Income Dividend)
O Forecast annualised yield, p/e based on prospectus or other official estimates
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xi ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1425 a year for each security shown, subject to the Editor's discretion

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The share prices printed on these pages are also available on the internet at http://www.FT.com.

LONDON STOCK EXCHANGE

Footsie surges ahead to new closing record

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

Some much needed encouraging economic data coupled with a burst of actual and rumoured corporate oews were the main driving forces behind a rampant UK stock market yesterday.

Additional help for London came from Wall Street's excellent performance last Friday and again at the opening of US trading yesterday, which saw the Dow Jooes Industrial Average push up to within 20 points of its previous closing record, 7,962.31, reached on July 9 after London trading ceased for the day.

Those positives saw the FTSE 100 race ahead to finish the session a net 57.9 higher at a record closing level of 4,857.4. The index is only 21.6 short of its all-time intraday high of 4,879.0 reached on July 4. Turnover was 537.3m.

But the leading index left the other FTSE indices in its wake worrying about the impact of sterling's continued strength keeping an iron grip on the second liners, many of whicb are export-driven.

The FTSE 250 closed the day only 15.6 ahead at 4,423.9m, while the FTSE SmallCap settled 1.0 up at 2,205.4.

Senior traders in Londoo said the stock market was being pushed higher by the prospect of more takeover and merger activity coupled with the need for fund managers to find a safe home for the continuing influx of investment funds.

"Liquidity is the driving force; fund managers know they have to get cash into the market and London is as safe a haven as they can find, at the moment," said the head of marketmaking at one of the big European securities houses. He added that the FTSE 100 could well run on to hit the 5,000 level io the sbort term, given no downside surprises.

UK strategists were more cautious. Mr Richard Kersley of BZW pointed out that the "bullishness in London is being confined to the big cap variety of stocks; upside influences are mostly international and focused on the drugs, utilities and banks."

London began the day in subdued fashion, the FTSE 100 opening around 13 points higher before coming off quickly as sterling made further rapid progress.

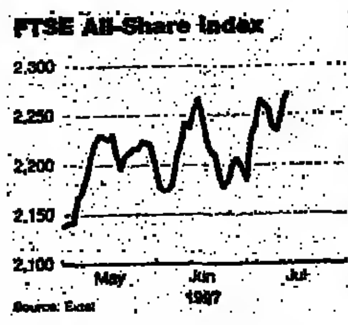
The index briefly dipped into negative territory during the first hour of trading, before embarking on a strong and determined upward move which saw it finish at the day's best and a new closing record.

The producer price oews, showing output prices down 0.2 per cent and input prices down 0.8 per cent, failed to stem the upwards performance of sterling. The Bank of England's sterling index against a basket of leading currencies moved up to 105.7 before easing back to finish at 105.5 with sterling remaining comfortably above the DM3.00 level.

ICI was easily the best individual performer among the FTSE 100 leaders, its shares spiralling upwards in the wake of the sales of its bulk chemicals businesses to Du Pont of the US for $3bn.

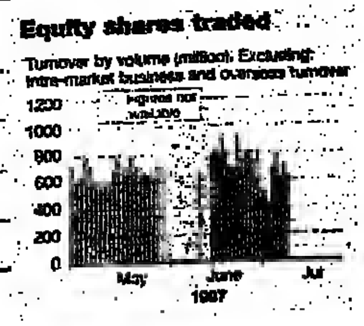
Drug stocks, always favourites among American investors, were also in the forefront of the market's advance.

FTSE All-Share Index



Equity shares traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



Indices and ratios

FTSE 100	4857.4	+57.9	FT 30	3080.1	+27.4
FTSE 250	4423.9	+15.6	FTSE Non-Fins p/e	19.19	18.98
FTSE 350	2325.9	+24.1	FTSE 100 Fut Sep	4880.0	+46.0
FTSE All-Share	2272.48	+22.07	10 yr Gilt yield	7.14	7.07
FTSE All-Share yield	3.42	3.45	Long gilt/equity yld ratio	2.10	2.06

Best performing sectors

1 Pharmaceuticals .... +4.0
2 Chemicals .... +3.3
3 Telecommunications .... +2.4
4 Consumer Goods .... +2.1
5 Water .... +1.6

Worst performing sectors

1 Retailers, Food .... -0.7
2 Gas Distribution .... -0.6
3 Textiles & Apparel .... -0.6
4 Breweries, Pubs & Rest .... -0.5
5 Extractive Inds .... -0.5

ICI up on DuPont deal

By Peter John, Martin Brice and Joel Kibazo

ICI, on the rack recently, shot back into favour as the company announced the sale of its industrial chemical operations to DuPont of the US for $3bn.

The shares leapt more than nine per cent and dragged the rest of the chemicals sector up in their wake. They closed up 69½ at 880p, almost 50 per ceot above the price five years ago when the company first suggested hiving off its Zeoeca pharmaceuticals arm.

The jump to the top of the Footsle on turnover of 14m was helped by an enthusiastic trading update at which ICI said it expected 1997 first-half profits of £160m before exceptionals.

Analysts were delighted by the speed with which ICI had disposed of the parts of the business no longer required since the acquisition of Unilever's speciality chemicals business.

The sale marks the shift from bulk commodity chemicals toward higher margin speciality chemicals. And ICI added it was confident of selling its remaining North American titanium dioxide business and achieving a good price.

US investors were said to be returning to the stock and Nikko said the shares could rise to between 950p and £10.00. However other analysts pointed out that the prospective p/e was now the most demanding in the sector. Dresdner Kleinwort Benson retained its sell stance and said fair value would be around 800p.

Leading pharmaceuticals reached for new heights in response to Friday's strength on Wall Street and positive fundamental data.

Zeneca was up 78½ at £21.58½. SmithKline Beecham 43 to £12.47 and Glaxo Welcome 59½ to £13.76½.

With Wall Street running and the US drug groups in favour, the differential in p/e multiples has grown.

One analyst pointed out that Warner Lambert was on 33 times 1998 earnings. Zeneca was only on 23.7 times.

And recent market research showed pharmaceutical sales in the world's top 10 markets rose 6 per cent in the first four months of 1997.

Commercial Union jumped sharply as a sector recommendation coincided with the return of some fairly standard takeover talk.

The shares have been hit hard recently in anticipation that profits will be shot down by the surge in sterling. The insurer generates around 45 per cent of operating profits outside the UK.

Sterling was still moving on up yesterday but the sterling story was supplanted by a tale that ABN Amro, the Dutch bank, was very interested in buying CU's Delta Lloyd insurance arm. Also, Credit Lyonnais Laing recommended the sector ahead of the interim results seasoo which kicks off in two weeks. CU ended 21½ up at 701p.

BT regained 16 to 456½p in a "technical bounce" following Friday's profits warning from the company's would-be merger partner, MCI of the US. Up to 10 per cent of BT shares are said to be at the centre of a complex trading deal that exploits the differing value of stock in the merger partners. Although much of yesterday's volume of 34m was said to be hedging those positions, it was a far cry from the 195m shares traded on Friday.

A raft of downgrades on BT followed the profit warning from MCI, with analysts shaving about £200m off this year's forecasts and £400m off next year.

Traders said BT shares could rise if it renegotiated merger terms with MCI, since the current share price discounted the merger going ahead on the original terms.

Geoerator PowerGen gained 14½ to 769p helped by relief that its £200m share of the windfall tax would be met out of current funds.

The chairman also told shareholders at the company's annual general meeting that that the group's business performance during the current year was 'in line with expectations' and the company approved a share buy-back.

A profits warning from rentals group Thorn cast a shadow over the stock yesterday.

Speaking at the company's annual meeting, Chairman Sir Colin Southgate said the compaoy expects the strength of sterling to reduce reported curreot year profits by around £11m of which around £5m has ariseo since the year's end.

Thoro said that during the first quarter turnover was down one per cent on a constant currency basis and 8.5 per ceot at actual exchange rates.

The shares closed at 158½p. The stock has been weak since the group was demerged from EMI last August and the shares retreated from a peak of 394p to hit a low of 150p in May.

Brisk trading in WH Smith brought turnover of 8.8m by the close as the shares appreciated 9 to 350½p.

Aoalysts dismissed a weekend press report saying WH Smith believes a rival retailer is lining up finance for a takeover of the group. The report pointed to food retailer Asda Groop, a penny lighter at 141p, and electronic goods retailer Dixons among Smith's likely predators. Dixons improved 14 to 560p.

It also suggested Boots, 13 ahead at 787½p, as another possible bidder. However, analysts indicated Boots had considered a takeover of WH Smith but decided against such a move.

Cairn Energy lifted 16½ to 498p as Lehman Brothers raised its stance to "outperform" from "neutral".

Lehman said the stock had dropped 24 per cent from their mid-March high, even as the news flow from the company had improved.

Hardy Oil & Gas rose 12½ to 366p – a new high – after the group gave an encouraging report about drilling on an exploration well in the Timor Sea.

Lasmo eased 1½ to 268½p after Salomon Brothers advised clieots to take profits. The broker said valuations were stretched and it was targeting 252p over a twelve-month period.

Shield Diagnostics improved 17½ to 542½p on optimism ahead of the company's annual results today and hopes for the group's cardiovascular disease diagnostics test.

The mark-down in engineering stocks continued to affect shares, with Rolls-Royce shedding 8½ to 216p on fears of the effects of the strong pound.

The same worries were said to be behind the decline of 4 to 204p at Glynwed.

The first day of trading in Cammell Laird, the ship repairing group, saw its shares rise to a 14.5 per cent premium to the 100p issue price, and close at 114½p.

Bodycote advanced 27½ to 832½p, helped by a positive note from brokers Dresdner Kleinwort Benson.

FT 30 INDEX

	Jul 14	Jul 11	Jul 10	Jul 9	Jul 8	Yr ago	*High	*Low
FT 30	3080.1	3052.7	3037.3	3030.1	3024.5	2723.1	3082.0	2669.8
Ord. div. yield	3.55	3.60	3.62	3.63	3.64	4.07	4.22	3.55
P/E ratio net	18.68	18.46	18.31	18.27	18.25	16.00	18.68	15.80
P/E ratio nil	18.49	18.27	18.12	18.08	18.06	16.11	18.49	15.71

FT 30 since compilation: high 3082.0 03/07/97; low 49.4 26/06/40. Base Date: 1/7/35

FT 30 hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
3057.8	3051.6	3064.5	3063.5	3062.2	3067.2	3070.4	3071.9	3075.5	3080.2	3047.1

	Jul 14	Jul 11	Jul 10	Jul 9	Jul 8	Yr ago
SEAQ bargains	51,584	53,604	49,160	48,486	51,896	28,200
Equity turnover (£m)†	-	NA	NA	2044.7	2263.9	1703.4
Equity bargains†	-	NA	NA	43,647	52,127	33,115
Shares traded (ml)†	-	NA	NA	634.4	721.7	537.5

†Excluding intra-market and overseas turnover but including Crest turnover.

 *For 1997.

■ London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	826	Total Highs	137	Total contracts	50,784
Total Falls	537	Total Lows	109	Calls	29,284
Same	1,703			Puts	21,510

Jul 14 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	4837.0	4880.0	+48.0	4882.0	4814.0	11414	71240
Dec	4936.5	4941.0	+47.0	4936.5	4936.0	1375	4114
Mar	-	4982.0	+48.0	-	-	0	101

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	-	4482.0	+15.0	-	-	0	7117

■ FTSE 100 INDEX OPTION (LIFFE) (*4850) £10 per full index point

	4700		4750		4800		4850		4900		4950		5000		5050	
	C	P	C	P	C	P	C	P	C	P	C	P	C	P	C	P
Jul	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Aug	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Oct	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec†	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Calls 4,800 Puts 3,761

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

	4675		4725		4775		4825		4875		4925		4975		5025	
Jul	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Aug	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar†	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Calls 10,715 Puts 7,888 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1997 High	1997 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
§	F.P.	79.8	127½	124½	Ashtenne	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
§150	F.P.	30.5	152½	149½	AIT	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
§100	F.P.	24.3	115	112½	Cammell Laird	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
*	F.P.	2.02	26	24	†Euro Mining Fin	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
§150	F.P.	230.4	190½	182½	Galen Hldgs	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
§2.5	F.P.	3.00	3½	3	Grosmont Hldgs	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
§	F.P.	1.20	1	½	Grosmont Hld Wrt	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
§	F.P.	13.5	140½	134½	Primesight	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
100	F.P.	33.1	112½	99½	Realbourne Merlin	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
§	F.P.	68.9	227	204½	Royalblue Grp	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
§100	F.P.	7.77	120½	109½	†SBS Group	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
§150	F.P.	117.0	157½	154½	SGB Group	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
*	F.P.	4,808	373½	291½	Woolwich	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1997 High	1997 Low	Stock	Closing price p	+or-
200	Nil	16/7	24½pm	7½pm	Benchmark Group	16½pm	
2	Nil	21/7	1½pm	¼pm	Dragon Oil	¾pm	
20	Nil	28/7	27½pm	2¼pm	Mackie Intl	7½pm	
17.5	Nil	22/7	1¼pm	¾pm	Marylebone Wrwk	¾pm	

pm premium.

FTSE GOLD MINES INDEX

	Jul 11	% chg on day	Jul 10	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (31)	1360.44	+2.6	1326.24	2069.81	2.28	-	2089.81	[illegible]
■ Regional Indices								
Africa (14)	1401.69	+1.5	1380.84	2881.31	[illegible]	[illegible]	[illegible]	[illegible]
Australasia (6)	1490.18	+7.5	1386.23	2273.17	[illegible]	[illegible]	[illegible]	[illegible]
North America (11)	1343.53	+2.2	1314.57	1841.56	[illegible]	[illegible]	[illegible]	[illegible]

 Figures in brackets show number of companies. Basis US Dollars. Base Value: 1000.00 31/12/92. † Partial. Latest prices were unavailable for this edition.

FTSE Actuaries Share Indices

Produced in conjunction with the Faculty and Institute of Actuaries

The UK Series

	Jul 14	Day's chge%	Jul 11	Jul 10	Jul 9	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	4857.4	+1.2	4799.5	4767.8	4762.4	3698.3	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE 250	4423.9	+0.4	4408.3	4386.2	4395.5	4291.6	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE 250 ex IT	4418.1	+0.3	4402.6	4380.7	4390.8	4327.1	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE 350	2325.9	+1.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE 350 ex IT	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE 350 Higher Yield	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE 350 Lower Yield	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE SmallCap	2205.43	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE SmallCap ex IT	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE All-Share	2272.48	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE All-Share ex IT	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ FTSE Actuaries Industry Sectors

■ Hourly movements

TRADING VOLUME

■ Major Stocks Yesterday

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Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Jul 14 / Sch)

[illegible]

BELGIUM/LUXEMBOURG (Jul 14 / Frs)

[illegible]

CZECH REP (Jul 14 / Koruna)

[illegible]

DENMARK (Jul 14 / Kr)

[illegible]

FINLAND (Jul 14 / Mkk)

[illegible]

FRANCE (Jul 11 / Frs.)

[illegible]

GERMANY (Jul 14 / Dm.)

[illegible]

GREECE (Jul 14 / Drachma)

[illegible]

ITALY (Jul 14 / Lira)

[illegible]

NETHERLANDS (Jul 14 / Fls.)

[illegible]

NORWAY (Jul 14 / Kroner)

[illegible]

POLAND (Jul 14 / Zloty)

[illegible]

PORTUGAL (Jul 14 / Escudo)

[illegible]

SPAIN (Jul 14 / Pta)

[illegible]

SWEDEN (Jul 14 / Kronor)

[illegible]

SWITZERLAND (Jul 14 / Frs.)

[illegible]

TURKEY (Jul 14 / Tk Lira)

[illegible]

PACIFIC

JAPAN (Jul 14 / Yen)

[illegible]

HONG KONG (Jul 14 / H.K.$)

[illegible]

INDONESIA (Jul 14 / Rupiah)

[illegible]

MALAYSIA (Jul 14 / MYR)

[illegible]

NEW ZEALAND (Jul 14 / NZ $)

[illegible]

SINGAPORE (Jul 14 / S$)

[illegible]

AUSTRALIA (Jul 14 / Aust$)

[illegible]

SOUTH KOREA (Jul 14 / Won)

[illegible]

TAIWAN (Jul 14 / TW $)

[illegible]

THAILAND (Jul 14 / Baht)

[illegible]

AFRICA

SOUTH AFRICA (Jul 14 / Rand)

[illegible]

NORTH AMERICA

CANADA

TORONTO (Jul 14 / Can $) 4 pm close

[illegible]

MONTREAL (Jul 14 / Can $) 4 pm close

[illegible]

Prices supplied by Extel, part of FT Information.

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. * Calendar year high and low. ‖ Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $.

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INDICES

	Jul 14	Jul 11	Jul 10	1997 High		1997 Low	
Argentina							
General(29/12/77)	(c)	23854.12	23880.22	23854.12	11/7	8.00	8/7
Australia							
All Ordinaries(1/1/80)	2673.0	2699.1	2684.4	2746.90	2/7	2362.20	1/4
All Mining(1/1/80)	845.2	849.7	833.5	987.30	24/2	831.30	8/7
Austria							
Credit Aktien(30/12/84)	439.57	436.91	437.28	441.88	8/7	374.48	9/1
Traded Index(2/1/91)	1383.80	1386.85	1365.30	1389.40	0/7	1138.22	9/1
Belgium							
BEL20(1/1/91)	2501.32	2492.41	2486.81	2504.47	7/7	1971.65	2/1
Brazil							
Bovespa(29/12/83)	(c)	13153.0	13600.0	13617.00	0/7	6666.68	2/1
Canada							
Metals Minls‡(1975)	(c)	5043.55	5052.34	5581.35	10/3	4945.66	11/4
Composite‡(1975)	(c)	6626.40	6592.90	6626.40	11/7	5579.30	14/4
Portfolio§§(4/1/83)	(c)	3351.44	3339.15	3351.44	11/7	2849.02	11/4
Chile							
IGPA Gen§(31/12/80)	(c)	5814.77	5841.81	5866.71	4/7	4912.42	2/1
Denmark							
CopenhagenSE(3/1/83)	632.31	624.77	618.23	632.31	14/7	478.14	2/1
Finland							
HEX General(28/12/90)	3417.01	3384.29	3371.04	3417.01	14/7	2483.25	2/1
France							
SBF 250(31/12/90)	(c)	1921.38	1915.58	1928.23	8/7	1532.19	2/1
CAC 40(31/12/87)	(c)	2941.59	2929.03	2960.58	8/7	2256.87	2/1
Germany							
FAZ Aktien(31/12/58)	1386.54	1359.89	1348.34	1386.54	14/7	998.21	2/1
Commerzbank(1/12/53)	4075.7	4007.10	3978.7	4075.70	14/7	2875.90	2/1
DAX†(30/12/87)	4124.19	4040.97	3992.38	4124.19	14/7	2848.77	2/1
Greece							
Athens SE(31/12/80)	1600.90	1591.44	1575.30	1727.78	23/5	984.04	2/1
Hong Kong							
Hang Seng(31/7/64)	15370.94	15225.29	14839.23	15370.94	14/7	12855.37	3/4
India							
BSE Sens.(1979)	4225.02	4321.96	4378.37	4404.00	9/7	3225.24	2/1
Indonesia							
Jakarta Comp.(10/8/82)	722.49	723.41	728.15	740.83	8/7	631.27	15/4
Ireland							
ISEQ Overall(4/1/88)	3535.13	3514.44	3490.59	3535.13	14/7	2725.87	2/1
Italy							
Banca Comm Ital(1972)	882.40	871.30	868.22	882.40	14/7	642.58	2/1
MIB General(2/1/97)	1326.0	1309.0	1302.0	1326.00	14/7	981.00	2/1
Japan							
Nikkei 225(16/5/49)	20228.72	19875.40	19754.78	20681.07	16/6	17303.65	10/1
Nikkei 300(1/10/82)	298.43	291.55	290.42	302.54	25/6	261.04	27/1
Topix(4/1/68)	1525.14	1504.39	1499.11	1560.28	26/6	1320.82	10/4
2nd. Section(4/1/68)	1818.86	1819.05	1811.28	1848.25	30/6	1518.58	15/4
Malaysia							
KLSE Comp.(4/4/86)	1015.50	1017.61	1008.52	1271.57	25/2	1008.52	10/7
Mexico							
IPC(Nov 1978)	(c)	4821.82	4862.39	4862.39	10/7	3359.48	2/1
Netherland							
CBS TtlRtnGen(End 83)	1114.5	1100.1	1084.5	1114.50	14/7	730.80	2/1
CBS All Shr(End 83)	644.0	635.7	626.6	644.00	14/7	429.00	2/1
New Zealand							
Cap. 40(1/7/86)	2505.32	2516.84	2507.21	2628.65	4/7	2287.48	1/4
Norway							
Oslo SE Ind(2/1/83)	2079.6	2081.89	2072.98	2102.82	7/7	1539.03	2/1
Philippines							
Manila Comp(2/1/85)	2710.73	2701.14	2511.15	3447.60	3/2	2469.38	20/5
Portugal							
BVL 30(4/1/93)	3398.22	3415.45	3424.83	3481.10	8/7	2165.57	2/1
Singapore							
SES All-S'pore(2/4/75)	485.91	488.06	485.92	573.03	17/2	470.94	29/4
South Africa							
JSE Gold(28/9/78)	909.6♥	980.8	947.4	1589.10	27/2	903.90	7/7
JSE Ind.(28/9/78)	8842.5♥	8807.7	8788.5	8842.50	14/7	7850.50	2/1
South Korea							
KoreaCompEx**(4/1/80)	764.45	768.30	767.77	792.29	17/6	611.05	7/1
Spain							
Madrid SE(30/12/85)	628.10	623.17	621.57	628.10	7/7	434.84	2/1
Sweden							
AffarsvaldsGen(1/2/37)	3206.5	3184.2	3146.4	3206.50	14/7	2378.50	2/1
Switzerland							
SMI Index(1/7/88)	5945.8	5901.5	5885.4	6012.80	8/7	3822.80	7/1
SPI General(1/6/87)	3868.89	3861.10	3700.98	3768.39	8/7	2808.22	6/1
Taiwan							
Weighted Pr.**(30/6/66)	9593.54	9394.63	9429.74	9593.54	14/7	6844.75	8/1
Thailand							
Bangkok SET(30/4/75)	612.87	628.55	649.33	858.97	22/1	464.77	19/6
Turkey							
IMKB Nat 100(1986)	2043.0	2027.6	1999.0	2043.00	14/7	885.00	2/1
WORLD							
MS Capital Intl(1/1/70)	(c)	983.1*	980.7	983.90	8/7	794.50	14/4
CROSS-BORDER							
Eurotrack 100(28/10/90)	2687.86	2657.44	2648.24	2687.86	14/7	1893.80	2/1
FTSE E 100(28/6/90)	2260.44	2231.87	2210.53	2260.44	14/7	1582.99	2/1
HSBC JC Drgn(31/12/88)	(c)	421.35	416.45	429.48	20/1	381.53	29/4
MG Emge Emrg(7/1/92)	(c)	198.24	198.72	198.81	8/7	158.74	3/1

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
CAC-40 (MATIF/MONEP) (200 x index) (Jul 11)							
Jul	2947.0	2950.0	+19.0	2954.0	2934.0	5,280	30,208
Aug	2956.0	2958.0	+19.0	2958.0	2949.0	150	2,823
DAX							
Sep	4120.0	4172.0	+80.5	4173.5	4116.0	18,824	85,959
Dec	4149.5	4202.5	+73.5	4199.5	4148.5	795	2,160
OMX							
Jul	2578.50	2601.00	+30.00	2604.00	2578.50	2,621	23,560
Aug	2598.25	2603.75	+23.75	2612.25	2598.25	1,139	3,074
SOFFEX							
Jul	5844.0	5843.0	+41.0	5892.0	5838.3	7,792	21,534
Aug	5855.5	5848.0	+39.0	5890.0	5848.0	3,042	4,184

** Sat July 12: Taiwan Weighted Price 9601.08; Korea Comp Ex 767.27. Base values of all indices are 100 except: Australia All Ord and Mining – 500; Austria Traded, BEL20, HEX Gen., MIB Gen., BVL30, SBF250, CAC40, SPI, Euro Top-100, ISEQ Overall; Toronto Comp./Met & Mins, DAX – all 1,000; SMI – 1500; JSE Gold – 255.7; JSE 20 Ind – 264.3; IMKB Nat 100 – 1; NYSE All Common – 50; Stand & Poor's – 10 and Amex Comp – 550. §§ Montreal. ‡ Toronto. (c) Closed. (u) Unavailable. † IBIS/DAX after-hours index: Jul 14 – 4142.18 +67.89 † Correction. * Calculated at 15.00 GMT. ⊕ Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♣ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

US INDICES

Dow Jones	Jul 11	Jul 10	Jul 9	1997 High	1997 Low	Since compilation High	Since compilation Low
Industrials	7921.82	7886.76	7842.43	7962.31 (8/7)	6391.69 (11/4)	7962.31 (8/7/97)	41.22 (8/7/32)
Home Bonds	103.99	104.08	103.83	104.08 (10/7)	101.09 (14/4)	108.77 (18/10/93)	54.99 (1/10/81)
Transport	2819.31	2812.21	2811.86	2821.82 (8/7)	2222.07 (2/1)	2821.82 (8/7/97)	13.23 (8/7/32)
Utilities	231.85	232.10	229.91	240.85 (22/1)	209.47 (25/4)	256.46 (31/8/93)	10.53 (8/7/32)

DJ Ind. Day's high 7984.02 (7953.94) Low 7837.66 (7777.05) (Theoretical♣)
Day's high 7956.07 (7913.22) Low 7867.21 (7809.63) (Actual♣)

Standard and Poors	Jul 11	Jul 10	Jul 9	1997 High	1997 Low	Since compilation High	Since compilation Low
Composite‡	916.68	913.78	907.54	918.75 (8/7)	737.01 (2/1)	918.75 (8/7/97)	4.40 (1/6/32)
Industrials♥	1079.81	1076.19	1068.08	1081.84 (8/7)	865.42 (11/4)	1081.84 (8/7/97)	3.52 (30/6/32)
Financial	104.21	103.80	103.05	105.75 (8/7)	80.75 (2/1)	105.75 (8/7/97)	7.13 (4/9/74)
NYSE Comp.	476.12	476.27	473.03	478.49 (8/7)	389.47 (11/4)	478.49 (8/7/97)	4.84 (25/4/42)
Amex Comp.	635.47	631.70	631.02	636.47 (11/7)	541.20 (29/4)	636.47 (11/7/97)	524.20 (16/7/96)
NASDAQ Cmp	1502.62	1490.93	1486.53	1502.62 (11/7)	1201.00 (2/4)	1502.62 (11/7/97)	54.87 (3/10/74)

■ RATIOS

	Jul 11	Jul 3	Jun 27	Year ago
Dow Jones Ind. Div. Yield	1.63	1.63	1.67	2.26
	Jul 9	Jul 2	Jun 25	Year ago
S & P Ind. Div. yield	1.56	1.56	1.62	2.03
S & P Ind. P/E ratio	24.91	24.75	24.95	21.97

■ NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Fannie Mae	7,343,800	42¼	-1⅛
Micron Tech	7,012,100	44⅝	+2¼
Crown Crk	5,682,800	48⅞	-6⅜
AT&T	5,434,600	35¼	-½
Reading Bts	5,139,100	33¼	+3⅛
Compaq	4,998,900	124	+3⅝
Pepsico	4,947,100	37¼	-1⅛
Hewlett-Pk	4,788,800	61⅛	+2⅜
Ph Morris	4,240,100	43⅛	-⅛
Chrysler	4,042,400	35¼	+⅝

■ TRADING ACTIVITY

● Volume (million)

	Jul 11	Jul 10	Jul 9
New York SE	503.726	551.274	577.634
Amex	23.186	21.634	28.345
NASDAQ	660.211	645.320	717.615
NYSE			
Issues Traded	3,412	3,380	3,416
Rises	1,730	1,774	1,143
Falls	1,078	1,045	1,719
Unchanged	608	561	554
New Highs	411	304	377
New Lows	10	19	23

	Open	Latest	Change	High	Low	Est. vol.	Open Int.
■ S&P 500							
Sep	921.50	926.40	+2.00	925.80	924.10	48,295	179,008
Dec	932.00	935.50	+1.20	-	-	209	5,275

	Open	Sett price	Change	High	Low	Est. vol.	Open Int.
■ Nikkei 225							
Sep	19960.0	20240.0	+400.0	20240.0	19860.0	20,932	166,740

Open interest figures for previous day.

■ TOKYO - MOST ACTIVE STOCKS: Monday, July 14, 1997

	Stocks Traded	Closing Prices	Change on day
Tokai Kogyo	33.6m	10	-5
Aoki Corp	10.4m	96	+14
Fujitsu	8.5m	1650	+20
Toshiba Corp	5.7m	730	+24
Ricoh Co.	5.6m	1610	+70
Matsushita E Ind	5.5m	2370	+70
Dainippon Screen	4.4m	1180	+70
Nippon Steel Cp	4.3m	352	-2
Hitachi	4.3m	1280	+20
Kobe Steel	4.0m	202	+2

4 pm close July 14

NEW YORK STOCK EXCHANGE PRICES

- A -

- B -

1997 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
86	63¾	Bclays	2.14	2.6	11	43	83½	82¾	82¾	-½
28⁹⁄₁₆	26⅝	Bard (C R)	0.72	1.9	23	930	37⅛	37⅝	37¾	+³⁄₁₆
29⅞	19.00	Barnes Grp	0.00	2.1	15	279	29⅛	28½	28⅝	-³⁄₁₆
56¾	39	BarnBk	1.24	2.3	16	3761	55¼	54¼	54⁷⁄₁₆	-½
28⅝	19⅝	BrckGd	0.14	0.8	39	8687	33³⁄₁₆	21⁷⁄₁₆	21³⁄₁₆	-¹³⁄₁₆
12⅝	9½	Barry(RG)			15	36	12⅝	12⁷⁄₁₆	12⅝	+¹⁄₁₆
7⅛	5¼	BattMt	0.05	1.0		4184	5⁷⁄₁₆	65⁷⁄₁₆	5⁷⁄₁₆	-½
47⅞	32½	Bausch	1.04	2.3	39	542	45⁷⁄₁₆	44¹³⁄₁₆	45¼	-³⁄₁₆
59⅜	39⅞	Baxter	1.13	1.9	60	3392	58¹⁵⁄₁₆	57¹³⁄₁₆	50½	+½
27¹³⁄₁₆	15⅜	BayNtwks				19375	27¹³⁄₁₆	26¾	37	-⅞
28¼	25⅛	Bay St Gas	1.54	5.8	14	133	26¹³⁄₁₆	26⅝	26¾	
20¼	19⅛	Bd Tr 1838 x	1.52	7.6		8	20⅛	20	20	+⅛

- C -

- D -

- E -

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NYSE PRICES

4 pm close July 14

Continued from previous page

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1997. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. ss-split. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.

♣ Dealings suspended.

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AMEX PRICES

4 pm close July 14

NASDAQ NATIONAL MARKET

4 pm close July 14

EASDAQ

EASDAQ is a fully regulated independent pan European Stock Market focused on high growth companies with international aspirations. The shares of companies on the EASDAQ Stock Market can be bought and sold through EASDAQ Members. EASDAQ Members are made up of Brokers and Banks from across Europe.

Company	Mid price	Change on day	Volume	High	Low	Company	Mid price	Change on day	Volume	High	Low
ActivCard	US$3.125		0	8.25	3	Lernout & Hauspie	US$29.375	+0.625	8650	29.375	25
Artwork Systems	US$9.5		12680	11.125	9.5	Mercer Int'l	US$9.25	+0.375	4000	11.75	8.125
Chemunex	FFr15		0	10	14	NTL	US$23.875	+0.125	16000	25.125	23.375
Dr Solomon's ADS	US$27.375	+0.875	15000	27.75	10.875	ProTech	US$3.875		0	6.125	3.875
Esprit Telecom ADS	US$8.25	-0.125	2100	12.25	5.375	Schoeller-Bleckmann	Sch988	+34	17160	1020	900
Innogenetics	US$11	-0.125	47670	12.75	10.375	Topcall Int'l	Sch3198	+25	13715	3185	3065

Prices for 14/7/97. Please note that mid prices are now used to calculate highs and lows.
Information about EASDAQ can be found on the Web site at: HTTP://WWW.EASDAQ.be
EASDAQ offices are located in Brussels (Tel. 32-2 / 227 65 20) and in London (Tel 44-171 / 489 9990)

Dow edges closer to 8,000 level

AMERICAS

Wall Street opened higher in morning trading with the Dow Jones Industrial Average moving within range of the 8,000 mark on the back of good gains for technology and financial services stocks, *writes John Labate in New York*.

By midday the Dow strengthened 10.68 at 7,932.50 while the broader Standard & Poor's 500 index improved 3.58 to 920.26. Among Dow stocks, International Paper rose $1\frac{1}{8}$ at $58\frac{3}{8}$ and Boeing gained $1 at $57\frac{7}{8}$.

DuPont, which announced the acquisition of much of ICI's industrial chemical business, was unchanged at $63¾.

Technology stocks, large and small, were off to a strong start for the week. Among Dow components, Hewlett-Packard gained $2¼ at 63\frac{11}{16}$ and IBM rose $1⅝ at $96¾. The Nasdaq Composite index gained 17.57 to 1,520.19 as Intel surged $2 at 78\frac{11}{16}$ and Microsoft added $3¼ at $132¾.

Networking firm Ascend Communications jumped 4\frac{3}{16}$ or more than 8 per cent at 52\frac{3}{16}$.

Internet access company Netscape Communications rose 3\frac{1}{8}$ at 41\frac{11}{16}$ while internet company At Home, which went public on Friday, surged more than 25 per cent, adding $4¼ at $21¼.

A batch of upbeat second quarter earnings reports lifted much of the banking sector as Nationsbank rose $1⅛ at 67\frac{11}{16}$ and First Chicago gained 1\frac{1}{16}$ at $64⅛. On the downside, Wells Fargo lost $4¼ at $266¼.

Major financial services companies had a good morning with Donaldson, Lufkin & Jenrette gaining 2\frac{3}{16}$ at $59¾ on strong second quarter earnings, and Charles Schwab adding $⅝ at $42⅛.

Retailers were mixed as K-Mart lost $⅛ at $11 and rival Sears Roebuck slid $⅞ at $54⅛. Industry leader Wal-Mart rose $¼ at $35⅛. Despite an upgraded analyst rating and the announcement of a new chief executive, Waste Management was down $⅝ at $32⅞.

TORONTO climbed further into uncharted territory having hit record highs in three of last week's five trading sessions. At the noon calculation, the 300 composite index was up 20.00 at 6,646.40.

Barrick Gold gained 55 cents to C$30 and Placer Dome added 25 cents at C$20.95. Among communications stocks, Northern Telecom was the star performer, advancing C$2.25 to C$129.25. CanWest Global Communications, which put out a strong earnings statement on Friday, jumped 60 cents to C$24.50.

Mexico City falls back

MEXICO CITY ran into renewed profit-taking following the modest sell-off that pushed the market lower on Friday. Volume was light and dealers said that sentiment was holding up well after the recent strong rally. The IPC index, which notched up a run of eight consecutive record highs up to last Thursday, was 11.66 lower at 4,809.96 lower at midsession. Financial group Banamex-Accival fell 57 centavos to 19.68 pesos.

SANTIAGO moved higher at the opening but by midmorning had slipped back. There was talk that telecoms giant CTC was set to produce earnings towards the bottom end of brokers' estimates. The shares fell almost 1 per cent to 3,400 pesos. At midsession, the IPSA index was off 0.38 at 134.28.

MARKETS IN PERSPECTIVE

	% change in local currency †				% change sterling †	% change in US $ †
	1 Week	4 Weeks	1 Year	Start of 1997	Start of 1997	Start of 1997
Austria	-0.01	+4.74	+26.71	+20.75	+6.15	+5.12
Belgium	+0.21	+2.06	+43.14	+29.85	+13.13	+12.04
Denmark	+3.94	+6.82	+52.09	+31.85	+16.57	+15.45
Finland	+2.28	+9.57	+75.58	+39.03	+23.41	+22.22
France	+0.31	+4.65	+39.90	+25.42	+10.20	+9.13
Germany	+2.49	+7.31	+52.73	+37.16	+20.62	+19.45
Ireland	+2.47	+4.37	+38.49	+25.32	+13.41	+12.32
Italy	+3.18	+9.83	+38.59	+35.57	+21.22	+20.05
Netherlands	+1.65	+10.68	+68.45	+44.63	+26.82	+25.60
Norway	-0.12	+5.22	+42.77	+25.68	+9.61	+8.55
Spain	-0.69	+6.53	+75.81	+40.63	+23.77	+22.58
Sweden	+2.74	+8.63	+69.93	+36.77	+21.69	+20.51
Switzerland	-0.68	+7.46	+50.02	+45.76	+35.39	+34.08
UK	-0.40	-0.30	+23.81	+13.55	+13.55	+12.45
EUROPE	+0.65	+4.50	+41.32	+27.64	+18.35	+17.21
Australia	-1.17	+2.01	+29.09	+14.00	+7.66	+6.62
Hong Kong	+1.77	+7.60	+24.85	+4.69	+5.56	+4.54
Indonesia	-3.40	+1.23	+24.83	+10.62	+7.82	+6.78
Japan	-0.67	-1.48	-7.13	+3.16	+6.38	+5.35
Malaysia	-5.54	-7.18	-13.29	-20.15	-18.71	-19.49
New Zealand	-0.69	+7.46	+19.14	+6.86	+4.29	+3.26
Philippines	-1.14	-2.89	-21.93	-19.73	-28.94	-29.63
Singapore	-1.02	+1.05	-2.30	-5.30	-6.98	-7.88
Thailand	-10.05	+24.40	-57.75	-27.26	-37.64	-38.25
Canada	+0.57	+1.34	+35.93	+14.38	+15.53	+14.41
USA	+0.15	+2.71	+41.58	+23.03	+24.23	+23.03
Brazil	-0.71	+10.37	+80.00	+72.08	+67.18	+65.55
Mexico	+4.09	+12.79	+53.37	+41.78	+43.59	+42.21
South Africa	-0.58	-0.39	+3.24	+6.70	+12.82	+11.73
WORLD INDEX	+0.12	+2.55	+28.68	+19.24	+17.99	+16.85

† Based on July 11th 1997.

Strong dollar propels Frankfurt to peak

EUROPE

The strength of the dollar, which hovered around a six year-high against the D-Mark, propelled many of the bourses forward.

FRANKFURT moved ahead from Friday's record close as the Ibis-indicated Dax index climbed 67.89 to close at 4,142.19, off a day's best of 4,151.51.

The insurance sector outperformed as Munich Re's first half figures, released on Friday, won it upgrades from a number of analysts. The shares closed up DM295 at DM6,430, and Allianz two would collaborate to enter the fast-growing sports-utility car market. BMW rose DM50.50 to DM1,545 and Daimler-Benz climbed DM3.55 to DM143.60.

Paris was closed for the Bastille Day holiday

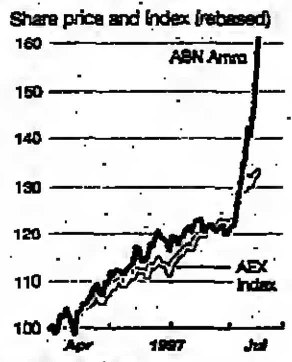
gained DM13.05 at DM432.50.

First-half steel production figures, up 13 per cent from 1996, helped the sector. Preussag rose DM10.40 to DM549 and Thyssen gained DM7 to DM440. The companies also continued to benefit from news that they were planning to start talks on cooperating in shipbuilding.

Strong German motor production figures, released late on Friday, supported car shares. Volkswagen moved up DM37 to DM1,487 and Porsche was DM20 higher at DM2,870 on reports that the

ABN Amro

Share price and index (rebased)



Source: Datastream/ICV

ZURICH moved swiftly back and the SMI index finished 44.3 higher at 5,845.8.

The pharmaceuticals sector was at the centre of attention. Roche certificates jumped SFr110 to SFr14,265 ahead of today's first half sales figures.

Novartis also found strong demand, rising SFr39 to SFr2,420.

Sulzer Medica made a volatile debut. After jumping to a hefty premium at SFr440, the shares settled back to SFr408, compared with the IPO price of SFr350.

Nestlé turned back from a high of SFr1,989 to close SFr12 weaker at SFr1,950 ahead of first-half sales figures expected later this week.

Winterthur jumped SFr56 to SFr1,474 as the takeover or merger speculation which drove the shares last week was reinforced by Friday's announcement that Mr Martin Ebner's BZ Group held 18.3 per cent of the insurer.

AMSTERDAM saw another strong session for ABN Amro. The AEX index rose 11.56 to a record 948.17 to extend its rally this month to 9 per cent.

Dealers said the upside drive was coming mostly from the options market, plus some private investor buying.

"The institutions are sitting this one out but so far they are not selling. Some stock shortages are setting in," said one trader.

The heavyweight internationals made most of the running. Philips rose Fl2.10 to Fl148.80 and Royal Dutch shrugged off concerns about softening oil prices and recent *"take profits" advice* from a top broker to advance Fl2.40 to Fl111.20.

ABN Amro continued to storm ahead. Talk of an acquisition persisted and the shares ended Fl1.80 higher at Fl46.60 after touching a session best of Fl48.30. The shares, which traded 9.8m yesterday, have advanced nearly 30 per cent since the start of this month and more than 50 per cent since mid-April.

Nedlloyd jumped Fl3.20 or 5.5 per cent to Fl61.80 after news of a disposal sparked hopes for further restructuring.

Heineken stayed out of step with the broad upturn, slipping Fl6 to Fl334.

HELSINKI continued to set the pace within the Nordic bloc, rising 32.72 to a record 3,417.01 on the Hex index.

STOCKHOLM pushed higher too, lifting the general index 23.18 to 3,417.01. *Nokia tracked recent gains* for US high techs, adding FMk10 at FMk429. Ericsson was a similar story among Swedish shares, gaining SKr3 to SKr329. Ahead of Thursday's results from its joint venture with Merck, Astra A rose SKr3.50 to SKr156. Volvo B gained SKr1.50 to SKr211.5 on talk of a US acquisition by the group's trucks arm.

FTSE Actuaries Share Indices

Jul 14							THE EUROPEAN SERIES	
Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FTSE Eurotrack 100	2676.43	2682.87	2685.84	2685.42	2687.06	2687.85	2688.32	2687.86
FTSE Eurotrack 200	2659.16	2672.38	2670.50	2668.16	2672.00	2675.29	2675.80	2673.52

	Jul 11	Jul 10	Jul 9	Jul 8	Jul 7
FTSE Eurotrack 100	2657.44	2648.24	2680.53	2653.83	2637.25
FTSE Eurotrack 200	2642.15	2622.81	2642.05	2626.43	2618.05

Base value 1000 (26/10/90). Highday: 100 - 2689.37; 200 - 2677.47 Lowday: 100 - 2676.42 200 - 2659.16. 1 Partial.

MILAN finished below the day's highs as bond markets *came off the boil, after a session in which the banks* made much of the running. The Comit index rose 11.10 to 862.40 while the real-time Mibtel index turned back from a high of 14,175 to close 50 ahead at 14,068.

Among the banks, Credito Italiano rose L123 to L3,768 and Ambroveneto jumped 654 to L7,361, having been suspended twice for excessive gains. Investors have been targeting the stock ahead of its planned alliance *with the Milan-based savings* bank Cariplo.

Banca di Roma was L106 higher at L1,450 after weekend reports that it had struck a deal with managerial staff to reduce salary costs.

Benetton, the often volatile clothing group, jumped L620 to L26,867 after calling a news conference for today.

MADRID moved higher in quiet trading overshadowed by political uncertainty. The bourse closed for 10 minutes during the morning as the nation paid *its respects to* the latest ETA murder victim. At the close, the general index was up 4.93 at 628.10.

Repsol rose Pta200 to Pta6,550 *as doubts about tariff increases were said to have diminished.*

Asturiano de Zinc added Pta210 to Pta3,225 after Glencore International of the US announced plans to increase its stake in the company to 45 per cent.

ISTANBUL added to its string of record closes after Saturday's parliamentary confidence vote which was, as expected, won by the new right wing coalition headed by the conservative prime minister, Mr Mesut Yilmaz.

The IMKB National-100 index rose 16 to 2,043, having brushed a trading record of 2,056 in late trade. The index has risen almost 32 per cent since mid June.

Written and edited by Michael Morgan and Jeffrey Brown

Nikkei jumps 1.8% to regain 2,000 points level

ASIA PACIFIC

Active buying of high-tech stocks continued to drive Tokyo higher, lifting shares above the 20,000 level for the first time since early July, *writes Gwen Robinson*.

The Nikkei 225 average jumped 353.23 or 1.8 per cent to close at the day's high of 20,228.72 after opening at the day's low of 19,909.09.

Trading started on a positive note as investors, encouraged by New York's advance on Friday and strong Nikkei index futures in Chicago, bought high-tech electricals and precision instrument makers. Stocks stayed firm throughout the day on solid buying by both foreign investors and domestic institutions. Sentiment was further buoyed by the recovery of financial issues and some construction stocks.

Volume edged down from Friday's 427m shares to an estimated 420m. Advances led declines 607 to 469 with 157 unchanged. The Topix index of all first-section stocks rose 20.75 to 1,525.14 and the capital-weighted Nikkei 300 was up 4.88 at 296.43. In London, the ISE/Nikkei-50 index rose 2.11 to 1,642.75.

Among stocks that fell sharply in the wake of the failure of construction group Tokai Kogyo were, Aoki, a medium-sized general contractor, and Yaohan Japan, which both recovered after their executives denied late last week they were in financial difficulty. Aoki soared Y14 or 17 per cent to Y98 and Yaohan Japan climbed Y30 to Y125 on buybacks.

However, investors harboured anxieties about the prospects for troubled contractors and other debt-ridden companies and are unlikely to chase such issues significantly higher, analysts said. Some construction-related stocks continued on their recent downward path. Ando fell Y19 to Y435, Nishimatsu Construction Y17 to Y718 and Tokai Kogyo slid Y5 to Y10.

Precision instrument makers were the day's biggest gainers, rising nearly 5 per cent as a group. Ricoh jumped Y70 to Y1,610, Canon Y70 to Y3,340 and Nikon Y80 to Y1,980. Among other high-technology issues, Sony surged Y230 to Y10,100, Advantest Y150 to Y9,800, Tokyo Electron Y400 to Y6,530 and TDK Y240 to Y9,000. Other blue chip issues also enjoyed strong gains with Honda rising Y100 to Y3,540, Fuji Photo Film Y60 to Y4,750 and Bridgestone Y120 to Y2,830.

Banks rebounded. Sumitomo Bank climbed Y100 to Y1,860, Bank of Tokyo-Mitsubishi Y70 to Y2,160 and Sanwa Bank Y70 to Y1,610.

In Osaka, the OSE average jumped 185.27 to 20,976.81 and volume fell to 16.3m shares.

HONG KONG looked to the banks to lead a broad rally up into record setting territory although profit-taking in the property sector pulled the market back from its best levels. The Hang Seng index finished 145.65 higher at a record 15,370.94, off a peak of 15,502.54, in volume of HK$19.1bn.

HSBC roared to a record high of HK$250 but edged back to close HK$4 higher at HK$249 as investors took positions ahead of the bank's results due on August 4.

Second line finance stocks were strong on speculation that Chinese companies would continue buying into Hong Kong groups. Wing Hang Bank jumped HK$5 to HK$47.50, Wing Lung Bank added HK$1.20 to HK$60 and Union Bank picked up HK$1.15 to HK$19.90.

MANILA gave up early gains to close with the composite index 9.59 ahead at 2,710.73 after rising to a high of 2,747.93 in the first hour of trading.

On Friday following the effective devaluation of the peso the share market soared 7.6 per cent but yesterday foreign buyers were said to have turned more circumspect.

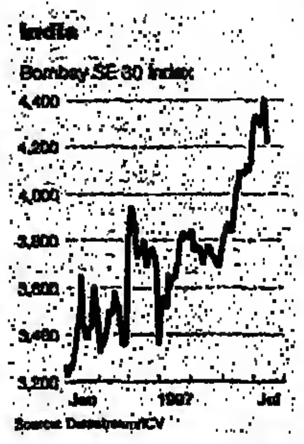
Dollar earner PLDT rose 30 pesos to 965 pesos. Talk of a tariff increase lifted power utility Meralco by 13 pesos to 155 pesos.

BANGKOK continued to track the foreign exchanges, slipping 16.64 or 2.7 per cent to 611.91 on the SET index as the baht had another seesaw day.

SYDNEY closed lower on profit-taking. The All Ordinaries index was down 26.1 at 2,673.0 after a high of 2,701.6. The banks sector fell 1.5 per cent with NAB down 34 cents at A$19.806 and ANZ off 23 cents at A$9.92. Coca-Cola Amatil continued to meet with adverse broker comment, sliding 25 to A$14.75 for a three-day decline of 10 per cent. CSR shed 20 cents to A$5.07.

India

Bombay SE 30 Index



Source: Datastream/ICV

ICI Australia ended at A$12.58 after the flotation of ICI's stake in the company. The institutional and retail offer prices for the stock were A$12.35 and A$11.85 respectively. News Corp fell 13 cents to A$6.30.

BOMBAY tumbled on political worries after the regional DMK party planned to pull out of the United Front minority government. The BSE-30 index lost 96.96 to 4,225.02. Analysts noted that the government faced no immediate threat since the DMK said it would support the government from outside the coalition.

South Africa hits new record

A record high for closing industrials and another good rally for golds pushed Johannesburg's all-share index up by 32.6 to 7,380.6 at the close of trading.

Golds extended their rally through a third session after a better showing for bullion. The index rose 34.8 to 999.6. Western Areas jumped 8.6 per cent to R31.50 and Western Deep improved 5.3 per cent to R108.50.

Dealers said the upturn among industrials was partly the result of aggressive upside futures trading. The industrial index gained 85.9 to a high of 8,842.5.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS	FRIDAY JULY 11 1997								THURSDAY JULY 10 1997					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	52 week High	52 week Low	Year ago (approx)
Australia (76)	236.59	0.2	206.99	169.97	217.86	211.82	0.2	3.63	236.14	207.45	168.80	214.98	211.31	243.87	188.44	198.26
Austria (25)	199.64	-0.8	174.66	143.43	183.87	183.54	0.2	1.79	201.28	176.81	143.88	183.25	183.13	202.98	174.70	183.16
Belgium (29)	255.11	-0.8	223.19	183.28	234.70	229.82	0.2	2.97	257.31	226.03	183.94	234.28	229.43	261.11	206.70	207.48
Brazil (30)	314.00	-2.6	274.71	225.58	288.87	624.27	-2.5	1.17	322.44	283.24	230.50	293.56	640.59	322.44	170.26	187.41
Canada (127)	217.20	0.6	190.02	156.04	199.82	215.52	0.4	1.69	215.62	189.59	154.28	196.49	214.68	217.20	154.12	159.78
Denmark (32)	406.33	0.0	355.48	291.82	373.82	372.31	1.0	1.37	406.37	356.96	290.49	369.97	368.72	406.37	303.48	307.04
Finland (28)	300.21	-0.4	262.65	215.68	276.19	330.33	0.3	1.65	301.43	264.79	215.48	274.43	329.40	304.09	186.67	192.83
France (84)	233.61	-0.6	204.38	167.83	214.92	218.95	0.4	2.39	234.91	206.35	167.93	213.87	218.13	237.57	186.94	193.74
Germany (59)	226.94	0.2	198.55	163.04	208.79	208.79	1.2	1.36	226.52	198.99	161.93	206.23	206.23	228.71	168.70	172.80
Hong Kong, China (66)	530.06	2.3	463.73	380.81	487.65	527.15	2.4	2.87	518.00	455.03	370.30	471.60	514.91	539.63	407.55	424.92
Indonesia (27)	243.66	-1.7	213.17	175.05	224.17	365.95	-1.1	1.77	247.82	217.70	177.16	225.63	369.89	254.90	183.62	204.95
Ireland (17)	369.35	0.1	323.13	265.35	339.79	343.06	0.7	2.80	369.05	324.16	263.81	335.99	340.65	369.35	270.08	280.53
Italy (56)	100.23	1.2	87.69	72.01	92.21	128.53	1.6	1.92	99.04	87.00	70.80	90.17	126.52	100.23	73.26	81.04
Japan (485)	135.98	-0.1	118.97	97.69	125.10	97.69	0.4	0.81	136.11	119.57	97.30	123.92	97.30	150.97	107.57	150.98
Malaysia (107)	485.65	0.5	424.88	348.91	446.80	468.48	1.1	1.47	483.33	424.58	345.51	440.04	463.35	660.85	483.33	563.16
Mexico (27)	1734.66	-0.1	1517.60	1246.22	1595.87	14885.35	-0.8	1.25	1736.93	1525.77	1241.65	1581.34	14999.78	1736.93	1110.35	1161.80
Netherlands (19)	422.18	0.2	369.36	303.31	388.41	383.84	1.3	2.09	421.20	370.00	301.10	383.47	379.03	425.66	279.88	292.20
New Zealand (14)	94.78	0.2	82.92	68.09	87.20	75.08	0.5	3.87	94.63	83.13	67.65	86.16	74.72	98.47	79.04	81.71
Norway (41)	320.82	-0.3	280.67	230.48	295.15	321.95	0.5	1.91	321.93	282.80	230.14	293.10	320.40	326.60	246.04	255.55
Philippines (22)	143.30	-3.8	125.37	102.95	131.84	214.25	9.2	0.97	148.96	130.85	106.48	135.82	196.28	214.07	143.30	210.31
Singapore (42)	386.77	0.1	338.38	277.87	355.83	256.30	0.8	1.19	386.40	339.43	276.22	351.79	254.72	448.01	360.06	401.96
South Africa (44)	355.79	0.1	311.27	255.81	327.32	353.87	0.1	2.45	355.25	312.06	253.95	323.43	353.41	370.12	301.49	360.72
Spain (33)	269.42	-0.8	235.71	193.56	247.67	304.60	0.1	2.18	271.50	238.49	194.08	247.18	304.24	278.08	171.91	178.72
Sweden (49)	508.43	0.8	444.81	365.27	467.75	583.29	1.4	1.77	504.13	442.85	360.38	458.98	575.53	509.48	334.35	347.74
Switzerland (33)	319.86	-1.9	279.83	229.79	294.27	289.48	-1.2	1.16	326.03	286.40	233.07	296.83	293.13	329.59	231.59	247.55
Thailand (42)	59.16	-7.1	51.76	42.50	54.43	69.34	-4.3	4.45	63.67	55.93	45.51	57.98	72.44	166.35	47.55	166.35
United Kingdom (213)	318.43	1.1	278.59	228.77	292.95	278.59	0.7	3.62	315.04	276.74	225.21	286.82	276.74	319.10	229.63	236.12
USA (644)	371.35	0.3	324.86	266.78	341.63	371.35	0.3	1.65	370.07	325.06	264.55	336.92	370.07	371.85	254.79	262.30
Americas (826)	340.26	0.3	297.68	244.45	313.03	286.44	0.3	1.65	339.21	297.97	242.49	308.82	285.60	340.71	233.09	240.14
Europe (718)	280.89	0.2	245.74	201.80	258.42	260.97	0.6	2.46	280.31	246.23	200.38	255.20	259.40	282.11	204.71	211.32
Nordic (150)	430.50	0.4	376.63	309.28	396.05	430.76	1.1	1.71	429.70	378.58	306.48	390.30	426.27	430.94	291.45	301.39
Pacific Basin (881)	154.00	0.1	134.73	110.64	141.68	112.16	0.6	1.27	153.77	135.08	109.93	140.00	111.47	164.00	127.16	164.00
Euro-Pacific (1599)	206.97	0.2	181.07	148.69	190.41	168.12	0.6	1.94	206.60	181.49	147.69	188.09	167.10	209.00	173.55	183.50
North America (771)	361.84	0.4	316.56	259.95	332.89	360.96	0.3	1.65	360.55	316.72	257.74	328.25	359.72	362.23	248.65	256.06
Europe Ex. UK (505)	254.05	-0.3	222.26	182.52	233.72	244.44	0.6	1.81	254.75	223.79	182.11	231.93	243.06	256.23	185.85	192.88
Pacific Ex. Japan (396)	310.21	0.9	271.40	222.87	285.39	274.60	1.3	2.72	307.38	270.01	219.73	279.85	270.98	320.85	288.97	284.41
World Ex. US (1827)	211.00	0.2	184.60	151.68	194.12	175.18	0.5	1.92	210.67	185.06	150.60	181.80	174.24	211.77	176.94	184.96
World Ex. UK (2258)	256.67	0.1	224.55	184.40	236.13	226.56	0.4	1.60	256.27	225.12	183.20	233.32	225.61	257.28	199.56	206.04
World Ex. Japan (1986)	326.50	0.3	285.64	234.56	300.37	316.09	0.5	1.99	325.48	285.92	232.68	296.33	314.65	326.57	233.10	240.50
The World Index (2471)	261.98	0.2	229.20	188.22	241.02	231.51	0.5	1.80	261.34	229.57	186.82	237.93	230.49	262.28	202.32	208.69

 Latest prices were unavailable for this edition.